



2002 Massachusetts Nonresident or Part-Year Resident Income Tax Form 1-NR/PY

Nonresident and Part-Year Residents Only
All Schedules and Instructions



It's fast!

It's accurate!

It's safe!

See page 3
for details.



Completing Your Form 1-NR/PY

Please read this page carefully as it explains the correct method of completing your return.

Form 1-NR/PY Mass. Nonresident/Part-Year Resident Tax Return 2002

PRINT IN BLACK INK

FOR PRIVACY ACT NOTICE, SEE INSTRUCTIONS.

Ovals must be filled in completely. Example: ☒ For the year January 1–December 31, 2002 or other taxable year beginning 2002, ending 2002.

1. YOUR SOCIAL SECURITY NUMBER
0 1 2 3 4 5 6 7 8

2. SPOUSE'S SOCIAL SECURITY NUMBER
9 8 7 6 5 4 3 2 1

Note: Be sure to enter your Social Security number(s) above ↑

MICHAEL MURRAY
PEGGY MURRAY
123 ANY STREET
ANYTOWN MA 02345

If name and/or address has changed since 2001, fill in oval: ☐ If taxpayer(s) is deceased, fill in appropriate oval(s) (see instructions): 1. ☐ 2. ☐

Select **only one**: ☐ Nonresident ☒ Part-year resident ☐ Filing as both a nonresident and part-year resident (see instructions — **you must enclose Schedule R/NR**)

Note: Report use tax due on non-Massachusetts purchases on line 38.
Massachusetts Clean Elections Fund: (for part-year residents only) ☐ \$1 You ☐ \$1 Spouse, if filing jointly. Total ▶ \$ (This contribution will not change your tax or reduce your refund.)

1 Filing Status: (select one only) ☐ Single ☒ Married filing joint return ☐ Married filing separate return. (Enter spouse's both must sign return) ☐ Head of household (both must sign return)

2 Part-Year Residents: Enter dates as Massachusetts resident / / to / /
Total days as Massachusetts resident 177 ÷ 365 = 4849 ÷ 2

3 Total Income from U.S. 1040, line 22; 1040A, line 15; 1040EZ, line 4; 1040NR, line 23; 1040NR-EZ, line 7; or U.S. Telefile Tax Record, item I. If married filing separately, see instructions. ▶ 3 7500000

4 Exemptions: ☐ Fill in if noncustodial parent ☒ Fill in if using whole-dollar method

a. Personal exemptions. If single or married filing separately, enter \$3,300. If head of household, enter \$5,700. If married filing jointly, enter \$6,600. ▶ a 6600000

b. Number of dependents. (Do not include yourself or your spouse.) Enter number ▶ × \$1,000 = ▶ b 1000000

c. Age 65 or over before 2003: ☐ You + ☐ Spouse = ▶ × \$700 = ▶ c

d. Blindness: ☐ You + ☐ Spouse = ▶ × \$2,200 = ▶ d

e. Other: 1. Medical/Dental (from U.S. Sch. A, line 4) ▶ 2. Adoption (see instructions) ▶ 1 + 2 = e

f. Total exemptions. Add items a, b, c, d and e. Enter here and on line 22a. ▶ 4f 7600000

Nonresidents report in lines 5 through 11 Massachusetts source income only. Use line 13 if appropriate. **Part-year residents** report in lines 5 through 11 income earned while a resident. Do not use lines 13 or 14. If filing both as a **nonresident** and **part-year resident**, be sure to complete Schedule R/NR, Resident/Nonresident Worksheet, before proceeding any further.

5 Wages, salaries, tips and other employee compensation (from all Forms W-2 or line 13g) ▶ 5 4000000

6 Taxable pensions and annuities (see instructions) ▶ 6

7 Mass. bank interest: a. ▶ 1500000 – b. exemption 200000 = 7

Exemption: If married filing jointly, subtract \$200 from Total; otherwise subtract \$100 & enter result Not less than "0."

8 Business/profession or farm income/loss (enclose Mass. & U.S. Sch. C or C-EZ or U.S. Sch. F) ▶ 8

9 Rental, royalty, REMIC, partnership, S corp., trust income/loss (enclose Massachusetts Sch. E) ▶ 9

10 Unemployment compensation (see instructions) ▶ 10

SIGN HERE. Under penalties of perjury, I declare that to the best of my knowledge and belief this return and enclosures are true, correct and complete.

Your signature **Michael Murray** Date **2 / 1 / 03** Print paid preparer's name Preparer's SSN or PTIN

Spouse's signature (if filing jointly) **Peggy Murray** Date **2 / 1 / 03** Paid preparer's phone Paid preparer's EIN

May the Department of Revenue discuss this return with the preparer shown here? (see instructions) ▶ ☐ Yes ☒ No Paid preparer's signature Date ☐ Fill in if self-employed

Name and Address

Use the preaddressed return in the front of the booklet we sent you. Print in black ink the Social Security number of each person filing the return in the space provided. If your address has changed, please make all changes on the preprinted form. If you did not receive a preaddressed booklet, print in **black ink** the full name and address. Enter names as they appear on your federal tax return.

Social Security Number

Be sure to enter the Social Security number of each person filing the return in the space provided.

Whole-Dollar Method

If using the whole-dollar method, be sure to fill in the appropriate oval. Then round off, to the nearest dollar, all amounts on the return and on any schedules. **Do not** use the whole-dollar method on worksheets that you use to reach amounts shown on your return.

\$1.00–\$1.49 = **\$1.00**

\$1.50–\$1.99 = **\$2.00**

Filling in the Ovals

Make sure all ovals applicable to your filing situation are filled in completely, as shown: ☒

Filling in Dollar Amounts/Reporting Losses

When entering amounts on Form 1-NR/PY and schedules, print your numbers in **black ink** as shown below. Be sure there is only one number per box. Numbers must be written completely within the boxes and should not touch them.

If you are reporting a loss in any line, mark over the "X" in the far left box for that line. Failure to do so will result in the loss being machine-read as a gain. Also, be sure to mark over the "X" boxes in the supporting schedules. **Do not** use parentheses or minus signs to indicate losses.

▼ If showing a loss, mark over X in box at left

X 1 2 3 4 5 6 7 8 9 0

When entering amounts, make sure to enter cents, even if using the whole dollar method, in the rightmost boxes. For example, \$1,000 should be entered as:

1,000.00

Mailing Checks and Enclosing Forms

Attach to Form 1-NR/PY, with a single staple only, your Form W-2 or 1099 withholding documents. If you are making a payment, complete Form PV, Payment Voucher. Form PV is attached to the back of the envelope found in this booklet. Be sure to use the appropriate "Payment Due" or "Refund Due" label on the envelope. Staple your check or money order to the front of Form PV and enclose with your return. Do not staple supporting schedules to the Form 1-NR/PY as this will delay the processing of your return.

Sign Your Return

After you have completed Form 1-NR/PY, sign your name at the bottom of page 1. Your spouse must also sign if this is a joint return. Write the date you signed the return. Form 1-NR/PY is not considered a valid return unless it is signed. Original signatures are required or the return will not be accepted.

FILING TIP You may be able to lower your taxes by taking advantage of other deductions and/or other credits on Form 1-NR/PY. See lines 19, 33 and 34 of Form 1-NR/PY and Schedule Y and Schedule Z instructions for a complete list of other deductions and/or credits for which you may be eligible. Senior citizens, see line 44 and Schedule CB instructions for the Senior Circuit Breaker Credit.

See Form 1-NR/PY, line 38 for the new Use Tax payment line.

38

Use tax due on non-Mass. purchases (see instr.). If no use tax due, fill in oval ☐ and enter "0" ▶ 38

5000

Would You Like to Throw This Form Away? 3

You Can If You E-File

What Is E-File?

E-File is filing your state personal income tax return electronically through one of three methods offered by the Massachusetts Department of Revenue (DOR). Last year, more than one million taxpayers electronically filed their state income tax returns in the Commonwealth. On average, they received their refunds in four days.

Telefile



Telefile allows eligible taxpayers to E-File by telephone. Millions of taxpayers have used Telefile, completing their calls in an average of eight minutes. **It's free and available 24 hours a day, 7 days a week.** Call (617) 660-2002 or (413) 827-7100 to see if you qualify.

Paid Preparer



Millions of taxpayers have had their returns electronically filed through DOR-approved tax preparers. If your tax preparer does not offer E-File, ask him or her to give it a try! Visit www.mass.gov/dor for a list of approved preparers.

Commercial Tax Preparation Software



You can also E-File using DOR-approved commercial tax filing websites or software products. Visit www.mass.gov/dor for a complete listing of approved websites and products. This E-File method is also known as "Online Filing."

Personal Identification Number (PIN)

If you received this booklet in the mail, be sure to retain the PIN printed on the back cover. You will need it to Telefile and to access the Department's telephone and Web-based systems that allow you to check the status of your refund and perform other actions. If you did not get this booklet in the mail and do not have a PIN, you will need the amount of your requested refund or tax due from your 2001 Massachusetts tax return to access these systems. If you are a first-time filer, you will still be able to access these systems without a PIN.

Why Should You E-File?

- **Less stress.** If you E-File you will not have to worry about math errors, missing schedules or other common mistakes which could delay your refund or cause other problems that take time to resolve. And E-File is safe. Plus, you will receive immediate confirmation that serves as proof you filed. **E-File and relax.**
- **Fast refunds.** Whether you E-File in January or mid-April, you will receive your refund, on average, in four days. You also have the option of having your refund deposited directly into your bank account. (Some commercial tax preparation products may not offer direct deposit.) **Call or click, get it quick!**

- **Easy to use.** Whether you call or click to file your return, or have your preparer E-File for you, the E-File system walks you through it step by step, and does the calculations for you.

Try it! What do you have to lose?

- **Convenient payment options.** If you have a tax due, you can pay by Electronic Funds Withdrawal, credit or check card, or file now and pay later using Form PV, Massachusetts Income Tax Payment Voucher (by April 15, 2003). Form PV is attached to the back of the envelope found in this booklet.

Filing Your Extension by Telephone or Via the Web

Taxpayers who want to file an Automatic Six-Month Extension of Time to File Massachusetts Income Tax Return, Form M-4868, may do so by telephone or via DOR's website. This option is available to taxpayers who meet the following requirements:

- you filed a 2001 Massachusetts income tax return;
- you owe no tax; or
- if there is a tax due with your extension, payment is made through Electronic Funds Withdrawal and your extension is filed by telephone.

If you meet all of the criteria above, call (617) 660-2222 to file your extension by telephone or visit www.mass.gov/dor to file via the Web if you owe no tax. If you do not have Form M-4868, complete the following worksheet before you call to determine whether or not you have a tax due.

1. Enter amount from Form 1-NR/PY, line 36, plus any amount entered in line 38.	_____
2. Enter the total of Form 1-NR/PY, lines 40 through 44.	_____
3. Amount due. Subtract line 2 from line 1, not less than "0".	_____

Would You Like More Information?

For more information about E-File, visit DOR's website, www.mass.gov/dor or call (617) 887-MDOR, or toll-free in Massachusetts, 1-800-392-6089. DOR's website also offers visitors a searchable index of legal rulings; tax forms and publications; news releases; statistical data and related articles. In addition, our website provides timely information from our Local Services and Child Support Enforcement divisions.

TaxTalk



TaxTalk is our automated system of recorded tax information available by calling (617) 887-MDOR or toll-free in Massachusetts 1-800-392-6089 during non-business hours. TaxTalk topics are also available through the Department's Fax on Demand system or via the Department's website at www.mass.gov/dor. For a menu of tax topics available by Fax on Demand, please call (617) 887-1900 using the handset and keypad on your fax machine and, when prompted, enter document retrieval number 4000. To access the list of tax topics through DOR's website, go to "Help/Resources."

TaxTalk Topics

What's New for Tax Year 2002

- 101 Income Tax Rate Change
- 102 What's New in Exemptions?
- 103 Charitable Contributions Deduction Suspended
- 104 Long-Term Capital Gains, Filing Your 2002 Tax Return
- 105 What's New for Nonresidents
- 106 Qualified Prepaid Tuition Programs
- 107 Workplace Retirement Plans
- 108 Increase in Deduction for Employment Related Child and Dependent Care Expenses
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- 110 Use Tax Due on Out-of-State Purchases

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- 152 Am I a Nonresident?/Which Return Should I File?
- 153 Am I a Part-Year Resident?/Which Return Should I File?
- 154 What is My Filing Status?
- 155 Guidelines for Filing an Extension
- 156 Should I Be Making Estimated Tax Payments?
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- 201 Understanding Your Form W-2 and Your Form 1099-G
- 202 Roth and Education IRAs
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- 204 IRA and Keogh Plans
- 205 403(b) Retirement Plans
- 206 401K and 457 Massachusetts Government Employees' Deferred Compensation Plans
- 207 Unemployment Compensation
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- 209 Short-Term Capital Gains/Losses & Long-Term Gains on Collectibles
- 210 Disability/Sick Pay/Workers' Compensation
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- 212 Exclusion for Gain on the Sale of a Principal Residence

Credits and Exemptions

- 301 No Tax Status/Limited Income Credit
- 302 Earned Income Credit
- 303 Full Employment Credit
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- 305 Credit for Taxes Paid to Other Jurisdictions
- 306 Lead Paint Credit
- 307 Tax Credit Provisions of the Brownfields Act
- 308 Credit for Real Estate Taxes Paid for Persons Age 65 and Older (Circuit Breaker Credit)
- 309 Massachusetts Low Income Housing Credit
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- 351 Responding to Your Income Tax Bill/Payment by Credit Card
- 352 Understanding Penalties and Interest
- 353 Wage and Bank Levy
- 354 Liens Upon Property

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- 512 Who is an Employee and How Much Do I Withhold?
- 513 Which Employers Must File Form(s) W-2?
- 514 Do I Withhold Massachusetts Income Tax from Household Help?
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- 551 Motor Vehicles — General Information

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- 701 Who Must File and Pay Corporate Excise?
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- 801 General Information for Estates with Date of Death before January 1, 1997
- 802 Estate Tax Reduction and "Sponge Tax"
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Your Rights as a Taxpayer

- 901 Taxpayer Rights and Responsibilities
- 902 When Do I Call the Problem Resolution Office?
- 903 Taxpayer Advocate
- 904 Office of Appeals
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Who Must File

You must file a Massachusetts Nonresident/Part-Year Resident Income Tax Return, Massachusetts Form 1-NR/PY, if you were not a resident of Massachusetts and you received Massachusetts source income in excess of your personal exemption multiplied by the ratio of your Massachusetts income to your total income, or you were not a resident of Massachusetts for the full year and your gross income was more than \$8,000 — whether received from sources inside or outside of Massachusetts.

Check the following categories to make sure you are a nonresident/part-year resident.

1. You are a full-year **Resident** if your legal residence (domicile) was in Massachusetts for the entire taxable year or if you maintained a permanent place of abode in Massachusetts and during the year spent more than 183 days, in the aggregate, in the state. If you fit this description, you should file Form 1, Massachusetts Resident Income Tax Return.
2. You are a **Nonresident** if you are not a resident of Massachusetts as defined above but received Massachusetts source income (e.g. from a job in Massachusetts). Fill in the “Nonresident” oval at the top of the form if this category applies to you.
3. You are a **Part-Year Resident** if, during the taxable year, you moved to Massachusetts or established a permanent place of abode here and became a resident, or you terminated your status as a Massachusetts resident to establish a residence outside the state. Fill in the “Part-year resident” oval at the top of the form if this category applies to you.
4. Complete the checklist below to determine if you are required to file Form 1-NR/PY as both a **Nonresident** and **Part-Year Resident**.

Line 1. Were you a Massachusetts resident for part of the 2002 tax year? ☐ Yes ☐ No.

Line 2. While you were not a resident of Massachusetts in tax year 2002, did you receive Massachusetts source income (e.g., from a job in Massachusetts)? ☐ Yes ☐ No.

If you answered “Yes” to line 1 only, you should file as a **Part-Year Resident**.

If you answered “Yes” to line 2 only, you should file as a **Nonresident**.

If you answered “Yes” to both line 1 and line 2, you must file both as a Nonresident and Part-Year Resident. Fill in the “Filing as both a nonresident and part-year resident” oval below the address section of the form if this category applies to you. Complete Schedule R/NR, Resident/Nonresident Worksheet, to calculate the portion of income earned while a Nonresident and the portion of income earned while a Part-Year Resident. Schedule R/NR is included in this booklet.

For more information on Massachusetts source income, refer to the section “Filing Your Mass. Return.”

Form 1-NR/PY Checklist

Use this checklist before mailing your return to help avoid any errors that may delay the processing of your return.

- ☒ Is your preprinted name and address correct?
- ☒ If you received a preprinted Form 1-NR/PY booklet in the mail, be sure to retain the four-digit Personal Identification Number (PIN) printed on the back cover. You may need it use DOR's Web-based and/or Interactive Voice Response (IVR) applications, such as checking the status of your refund.
- ☒ Have you entered your Social Security number(s) on Form 1-NR/PY, even if you received a preprinted booklet in the mail?
- ☒ Have you completed your Form 1-NR/PY in black ink?
- ☒ Have you, and your spouse if married filing jointly, signed your return at the bottom of page 1 of Form 1-NR/PY?
- ☒ Are all ovals filled in as necessary?
- ☒ If using the whole-dollar method, have you filled in the correct oval?
- ☒ If filing Schedule D, have you completed and enclosed pages 1 through 4?
- ☒ Have you printed all dollar amounts completely within the boxes?
- ☒ Have you marked an “X” in any form or schedule box that shows a loss?
- ☒ Is your Social Security number correct on your Form(s) W-2 or 1099? If incorrect, make the necessary changes on Form(s) W-2 or 1099.
- ☒ Have you attached with a single staple your Forms W-2 or 1099 to the return where indicated?
- ☒ If making a payment, have you stapled your check to the front of Form PV, Massachusetts Income Tax Payment Voucher, and enclosed (not stapled) Form PV with your return? Form PV is attached to the back of the envelope found in this booklet. Be sure to use the light blue mailing label when mailing your Form 1-NR/PY with Form PV.
- ☒ Are you filing an original copy of the form? Remember, photocopies of the forms and schedules are not acceptable.

Major 2002 Tax Changes

Personal Exemptions Decreased

Applicable for the 2002 tax year, recent legislation provides for the personal income tax exemptions to decrease from \$4,400 to \$3,300 for single and married filing separately filers, from \$6,800 to \$5,100 for heads of households, and from \$8,800 to \$6,600 for joint filers.

No Tax Status/Limited Income Credit Thresholds

Because the income level for No Tax Status for joint filers and heads of household is based in part on the personal exemption amounts, the threshold for No Tax Status for these taxpayers has been changed to reflect changes to the personal exemptions. The Limited Income Credit calculation is similarly affected.

Joint Filers No tax is imposed if the Massachusetts adjusted gross income (AGI) does not exceed \$14,200 plus \$1,000 per dependent. Joint filers are eligible for the Limited Income Credit if Massachusetts AGI does not exceed \$24,850 plus \$1,750 per dependent.

Heads of Household No tax is imposed if the Massachusetts AGI does not exceed \$12,700 plus \$1,000 per dependent. Heads of household are eligible for the Limited Income Credit if Massachusetts AGI does not exceed \$22,225 plus \$1,750 per dependent.

Single Filers No Tax Status for single filers is unaffected by the decrease in the personal exemption amount. For single filers, no tax is imposed if the taxpayer's Massachusetts AGI does not exceed \$8,000. Single filers are eligible for the Limited Income Credit if Massachusetts AGI does not exceed \$14,000.

Note: If married filing separately, you do not qualify for No Tax Status or the Limited Income Credit.

Tax Rate Lowered on Wages, Salaries, Interest, Dividends, and Certain Other Items of Income

Applicable to tax year 2002, legislation in 2000 resulting from a ballot initiative reduced the tax rate from 5.6% to 5.3% on the category of income consisting of wages, salaries, tips, pensions, Massachusetts bank interest, partnership income, business income, rents, alimony, winnings and certain other items of income.

Under current Massachusetts law, the tax rate on dividends and interest is the same as the tax rate on the category of income including wages, salaries, etc., that is more fully described above. The tax rate on dividends and interest is decreased from 5.6% to 5.3% for taxable year 2002. 12% income continues to include short-term capital gains, as well as short- and long-term capital gains arising from the sale of collectibles and gains on pre-1996 installment sales (a 50% deduction is allowed for gains on the sale of collectibles and gains on pre-1996 installment sales).

Tax Rate on Long-Term Capital Gains Increased for Transactions Completed On Or After May 1, 2002

Tax rates for transactions completed before May 1, 2002

Transactions completed prior to May 1, 2002 must be added together and taxed under the procedures and rates in place prior to the recent amendment to the capital gains law. Under prior law, gains on the sale of capital assets (excluding collectibles) held for more than one year but not more than two years are taxed as 5% income, those held for more than two years but not more than three years are taxed as 4% income, those held for more than three years but not more than four years are taxed as 3% income, those held for more than four years but not more than five years are taxed as 2% income, those held for more than five years but not more than six years are taxed as 1% income, and those held for more than six years are taxed as 0% income.

Tax rate for transactions completed on or after May 1, 2002

In place of the six categories of gain based on six defined holding periods and taxed at six different rates (ranging from 5% to 0%), recent legislation provides for a single category of long-term capital gains consisting of any gains from the sale or exchange of capital assets (except collectibles) held for more than one year. Effective for tax years beginning on or after January 1, 2002, the legislation changes the multiple tax rates for long-term capital gains to the single tax rate of 5.3%, but only for transactions completed on or after May 1, 2002.

Limitation on Capital Loss Offset Against Schedule B Interest and Dividends

Under prior law, there was no dollar limit on the deduction of capital losses against interest and dividend income. Under the new law, the total amount of deductions for short-term and long-term capital losses against interest and dividends cannot exceed \$2,000.

Election To Pay 5.3% Tax At Higher Rate

Recent legislation provides that the personal income tax forms must provide an election to voluntarily pay tax at a rate of 5.85% on taxable income which would otherwise be taxed at a rate of 5.3%. The election to pay tax at the rate of 5.85% does not apply to items of income taxed at 12% (short-term capital gains and gains on collectibles).

Military Personnel Serving in Afghanistan

As a result of Executive Order No. 13239 issued by President Bush on December 12, 2001, declaring the Afghanistan area as a combat zone, military and support personnel who served in Afghanistan are given extra time to file income tax returns and pay income taxes due. The extension period is for 180 days, in addition to the period of service or a hospitalization attributable to such service. Pay received by a member of the United States armed forces on active duty in a combat zone during the taxable year is excluded from Massachusetts gross income to the same

extent it is excluded from federal gross income under sec. 112 of the Internal Revenue Code. For more information, see TIR 02-4.

Deduction for Charitable Contributions Suspended

Recent legislation disallows a deduction for charitable contributions for tax year 2002. Depending on economic conditions, a deduction for charitable contributions may become available in future tax years.

Deduction Increased for Employment-Related Child and Dependent Care Expenses

When computing the Massachusetts work-related child and dependent care deduction, a taxpayer may exceed the federal dollar limit for employment-related expenses used to determine the federal dependent care credit under IRC sec. 21. For tax year 2002, the Massachusetts deduction is increased to a maximum of \$4,800 of employment-related expenses for one qualifying individual, and a maximum of \$9,600 of employment-related expenses for two or more qualified individuals.

Non-Work-Related Dependent Deduction Increased

The non-work-related child and dependent care deduction extends to households with one or more dependents under age 12, or one or more dependents who are age 65 or older, or who are disabled. For tax year 2002, the deduction is increased to \$3,600 for one qualifying dependent, and to \$7,200 for two or more qualifying dependents.

Massachusetts Depreciation Decoupled from Federal "Bonus" Depreciation Law

Massachusetts law was recently amended to decouple it from the adoption of Internal Revenue Code sec. 168(k). Section 168(k) provides for a special depreciation allowance for certain property placed into service during the three-year period beginning on September 11, 2001. Under the Massachusetts law change, the new federal depreciation allowance is not allowed. For Massachusetts purposes, for taxable years ending after September 10, 2001, depreciation is to be claimed on all assets, regardless of when they are placed in service, using the method used for federal income tax purposes prior to the enactment of sec. 168(k). For more information, see TIR 02-11.

Age 65 Low-Income Real Estate Tax Credit Increased

A credit is allowed to an owner or tenant of residential property located in Massachusetts equal to the amount by which the real estate tax payment or the rent constituting real estate tax payment exceeds 10% of the taxpayer's total income, not to exceed \$790. In order to qualify for the credit, a taxpayer must be age 65 or older and must occupy the property as his or her principal residence. "Rent constituting real estate tax payment" is 25% of the rent actually paid by the taxpayer, under a good faith rental agreement, for the right of occupancy of the residence during the taxable year. The amount of the credit is subject to limitations based on the taxpayer's total income and the assessed

value of the real estate. No credit is allowed if the taxpayer receives a federal or state rent subsidy or is the dependent of another taxpayer. For more information, see TIR 01-19.

Alternative Individual Use Tax Return

Beginning with tax year 2002, individuals may file their use tax return and pay their unpaid use tax on Form 1-NR/PY. Taxpayers may, if they prefer, still report and pay any Massachusetts use tax due by filing Form ST-11, Individual Use Tax Return; the line item added to the individual income tax return, however, makes the reporting easier and more convenient since both income tax and use tax returns are due on April 15 for the prior year. See line 38 instructions for more information on the use tax.

Tax Relief for Victims of Terrorist Acts and Other Disasters

Recent legislation provides tax relief for specified victims of the September 11 terrorist attacks as well as anthrax victims and victims of the Oklahoma City bombing. The Massachusetts law incorporates several provisions of the federal Victims of Terrorism Tax Relief Act of 2001, Public Law 107-134. Under the new law, qualified disaster assistance, including payments made to disaster survivors for living, personal and rebuilding expenses, as well as settlements, are not subject to tax. This exclusion is not limited to payments made to survivors of terrorist attacks or military action, but includes payments made to survivors of federal, state and locally declared disasters. In addition, specified victims are eligible to claim refunds for taxes paid for certain taxable years, in most cases tax years 2000 and 2001. For more detailed information, see TIR 02-19.

The U.S. Internal Revenue Code as of January 1, 1998

Massachusetts generally adopts the federal treatment of items of income and the federal exclusions from gross income. In addition, certain deductions allowed for federal tax purposes are allowed for Massachusetts tax purposes. With certain exceptions, Massachusetts adopts the Internal Revenue Code as amended and in effect on January 1, 1998. The exceptions, where Massachusetts adopts the current Internal Revenue Code, are listed on the next page. TIR 98-15 explains the major changes to the Massachusetts personal income tax provisions as a result of the adoption of the January 1, 1998 Internal Revenue Code. TIR 02-18 explains recent Massachusetts legislation that adopts the current Code for certain provisions of the personal income tax.

Federal Law Changes NOT Adopted by Massachusetts

► **Employer-Provided Educational Assistance — IRC sec. 127.** Educational benefits qualified for exclusion from federal gross income under IRC sec. 127 are included in Massachusetts gross income in 2002. The Economic Growth and Tax Re-

lief Reconciliation Act of 2001, Pub. L. 107-16, June 7, 2001, expanded the benefits of the federal exclusion at sec. 127, but Massachusetts has not adopted the new federal changes. Massachusetts adopts the provisions of IRC sec. 127, as in effect on January 1, 1998, which provide an exclusion from gross income for certain employer-provided education assistance for undergraduate courses, but the exclusion does not apply to payments for any course that began after May 31, 2000.

► **Student Loan Interest Deductions.** A deduction is allowed under the rules of IRC sec. 221, as in effect on January 1, 1998, for certain interest paid by the taxpayer for a qualified education loan for graduate or undergraduate education. The deduction is for interest paid on a qualified education loan during the first 60 months, not including any deferral or forbearance period. For tax year 2002, the maximum deduction is \$2,500, with the allowable amount reduced for individuals with federal adjusted gross income over \$40,000 (\$60,000 if married filing jointly). The Economic Growth and Tax Relief Reconciliation Act of 2001, Pub. L. 107-16, June 7, 2001, expanded the benefits of the federal deduction at sec. 221, but Massachusetts has not adopted the new federal changes. However, in the case of interest payment on education debt for **undergraduate** education, a taxpayer may elect to take a more favorable Massachusetts deduction where the amount is not limited by the 1998 rules at sec. 221. For more information on the Massachusetts deduction, see Schedule Y, line 8.

► **Parking, T-Pass and Vanpool Fringe Benefits — IRC sec. 132(f).** Generally, Massachusetts follows the exclusion from an employee's gross income for employer-provided parking, T-Pass, and vanpool benefits. However, a federal Act subsequent to January 1, 1998, created differences between the Massachusetts and federal treatment of this exclusion. The federal exclusion amounts for tax year 2002 are \$185 per month for employer-provided parking and \$100 per month for employer-provided vanpool and T-pass benefits combined. The Massachusetts exclusion amounts for tax year 2002 are \$195 per month for employer-provided parking and \$75 per month for employer-provided vanpool and T-pass benefits combined. These differences will be reflected in the Form W-2 provided by your employer. See TIR 02-8.

► **Self-Employed Health Insurance Deduction — IRC sec. 162(l).** A federal and Massachusetts deduction is allowed for amounts paid for medical care insurance for a self-employed taxpayer and his or her spouse and dependents. For federal purposes the deduction will be 70% of the qualified insurance payments for the 2002 tax year. However, due to differences between the Internal Revenue Code, as amended and in effect as of January 1, 1998, and the current year, only 60% of the qualified insurance payments are deductible for Massachusetts purposes for the 2002 tax year.

Massachusetts Adopts the Current Internal Revenue Code for Certain Federal Tax Provisions.

► **Employee Retirement Plans.** Beginning with tax year 2002, Massachusetts conforms to current federal law governing the taxation of contributions to and distributions from qualified plans, sec. 401(k) plans, sec. 403(b) plans, sec. 457 plans, SEPs (simplified employee pensions), and SIMPLE IRAs (savings incentive match plans for employees). Prior to 2002, for these retirement plans, Massachusetts generally followed the IRC as amended and in effect on January 1, 1998. Under the new law, Massachusetts conforms to current federal law in the treatment of elective deferrals, catch-up contributions, and qualified rollovers of plan proceeds. All amounts of retirement plan contributions and distributions that are allowed to be excluded from federal gross income under the current IRC will be excluded from Massachusetts gross income. See TIR 02-18 for more information.

► **Employer Contributions To Retirement Plans.** Beginning with tax year 2002, in the case of employers taxed under Ch. 62 of the General Laws, unless a specific statutory exception applies, Massachusetts adopts the current federal law at IRC sec. 404 allowing the deduction of employer contributions to qualified plans and other retirement plans. See TIR 02-18 for more information.

► **Qualified Tuition Programs.** Beginning with tax year 2002, the Massachusetts income tax is amended to conform to the federal treatment of "qualified tuition programs" as defined by IRC sec. 529. Under the new law, Massachusetts adopts the current federal exclusion from gross income at sec. 529 for distributions from qualified tuition plans. Under prior law, Massachusetts adopted the provisions of sec. 529 as amended and in effect on January 1, 1998.

Other areas in which Massachusetts applies the current Internal Revenue Code consist of:

- exclusions of certain income derived from Roth IRAs as defined in IRC sec. 408A and Education IRAs as defined in IRC sec. 530;
- treatment of rollovers from a traditional IRA to Roth IRAs;
- exclusion of gain from the sale of a principal residence provided by IRC sec. 121;
- trade or business deductions under IRC sec. 62(a)(1) unless an exception applies; and
- the limitations provided by IRC secs. 274(m) and (n) for the deduction of certain travel and meals and entertainment expenses.

For the above items, Massachusetts automatically adopts all changes to the Internal Revenue Code, including changes made after January 1, 1998. For more information, see TIRs 98-8, 98-15 and 02-18.

Privacy Act Notice

Under the authority of 42 U.S.C. sec. 405(c)(2)(C)(i), and M.G.L. c. 62C, sec. 5, the Department of Revenue has the right to require an individual to furnish his or her Social Security number on a state tax return. This information is mandatory. The Department of Revenue uses Social Security numbers for taxpayer identification to assist in processing and keeping track of returns and in determining and collecting the proper amount of tax due. Under M.G.L. c. 62C, sec. 40, the taxpayer's identifying number is required to process a refund of overpaid taxes. Although tax return information is generally confidential pursuant to M.G.L. c. 62C, sec. 21, the Department of Revenue may disclose return information to other taxing authorities and those entities specified in M.G.L. c. 62C, secs. 21, 22 or 23, and as otherwise authorized by Law.

Getting Started

If you follow this easy three-step process, you should be able to complete your form with a minimum amount of time and effort.

Step One — Gather Your Records

Before you begin, gather all your records together, including your Form(s) W-2 (Wages), W-2G (Winnings), and any Form(s) 1099. Use this information to complete your U.S. Form 1040, 1040A, 1040EZ, 1040NR, 1040NR-EZ or U.S. Telefile Tax Record first. The information on your U.S. return will help you complete your Massachusetts return.

Step Two — Complete Your Return

First, remove the forms from this booklet. If you received this booklet in the mail and the information in the preaddressed area is correct, file this return with the Department of Revenue. Be sure to enter your Social Security number(s) in the spaces provided. If you received a preprinted Form 1-NR/PY booklet in the mail, be sure to retain the four-digit Personal Identification Number (PIN) printed on the back cover. You may need it use DOR's Web-based and/or Interactive Voice Response (IVR) applications, such as checking the status of your refund. If your address has changed, make all of the necessary changes on the preprinted form. Please keep the extra copy for your records; you may need information from it when you complete your return next year.

When completing your return, simply proceed line by line, reading the instructions for each line before you enter any amounts. Make entries in black ink only. If a line does not apply to you, leave it blank. Be sure to check your return to make sure it is correct.

Step Three — Sign Your Return

After you have checked your return, be sure to sign it. Your spouse must also sign if it is a joint return. Please note that the signature area is at the bottom of page 1 of Form 1-NR/PY. Form 1-NR/PY is not considered a valid return unless it is signed. Original signatures are required or the return will not be accepted. If a payment is due, be sure to staple your payment to the front of Form PV, Massachusetts Income Tax Payment Voucher, and enclose Form PV with your return. Form PV is attached to the back of the envelope found in this booklet. Be sure to use the light blue mailing label when mailing your Form 1-NR/PY with Form PV.

Common Mistakes

An incomplete or incorrect return can delay the processing of your return. Following are a number of tips to help us process your return as quickly as possible.

Note: You should **not** staple any items, other than any required Form(s) W-2 or 1099s, to Form 1-NR/PY. Any enclosures such as schedules, statements, Form PV, Schedule R/NR, etc. should simply be placed in the envelope along with Form 1-NR/PY when mailing.

► **Missing Social Security Number(s).** Be sure to enter your Social Security number(s) in the spaces provided, even if you received a preprinted booklet in the mail.

► **Incorrect Computation.** The Department corrects many returns each year due to errors in computation. Before mailing your return, check your arithmetic to make sure the computations are correct.

► **Filing Status.** Be sure to fill in the correct oval in line 1, Filing Status. This line is frequently overlooked.

► **Exemptions.** Be sure that you specify the number of exemptions you are claiming in line 4, items b, c and d. Enter the appropriate number(s) in the small white box.

► **Missing Pages of Form 1-NR/PY.** Form 1-NR/PY is three pages. Be sure to include all three pages of the return when mailing.

► **Missing Withholding Statement(s).** Be sure the state copy of all Forms W-2 (Wages), W-2G (Winnings) and any Forms 1099 that show Massachusetts income tax withheld are attached with a single staple. These forms are frequently missing and must be obtained later from you in order to process the return.

► **Missing Supporting Schedules.** Be sure all required schedules are enclosed to support the information on your Form 1-NR/PY. These include Massachusetts Schedules X, Y, Z, B, C, C-2, D (all four pages), E, CB and R/NR. We cannot process your return without these forms.

► **Government Employee Pension Contributions.** If you were a state, local or county employee and made contributions to a Massachusetts state or local pension plan, your total wages for state purposes will be different from the amount you report on your U.S. return. Report your total state wages from your Form(s) W-2 on Form 1-NR/PY.

► **Earned Income Credit.** You must have your federal earned income credit amount from your U.S. return or as computed by the IRS if you wish to claim the earned income credit on Form 1-NR/PY.

► **Circuit Breaker Credit.** Be sure to complete and enclose Schedule CB, Circuit Breaker Credit, if you qualify to claim this credit.

► **Missing Signatures.** Thousands of unsigned returns are received by the Department every year. These returns must be returned to the taxpayers for signatures. If a joint return is filed, both spouses must sign the return. Make sure signatures are on the correct lines. Remember to sign your return at the bottom of page 1 of Form 1-NR/PY.

► **Missing Form PV.** If you are making a payment, make certain you fill out Form PV, Massachusetts Income Tax Payment Voucher, and staple your payment to the front of Form PV. Form PV is attached to the back of the envelope found in this booklet. Enclose Form PV with your return. Be sure to use the light blue mailing label when mailing your Form 1-NR/PY with the Form PV.

Filing Your Mass. Return

As a nonresident, you must file Form 1-NR/PY if your Massachusetts source income for 2002 exceeded the smaller of your apportioned personal exemption, or \$8,000.

What Is Massachusetts Source Income for Nonresidents?

The term "Massachusetts source income" is used throughout this booklet to describe the types of income which are taxable to a nonresident.

A nonresident is only subject to tax on items of income derived from or effectively connected with:

- any trade, business, or employment carried on in Massachusetts (see the following section);
- participation in any lottery or wagering transaction in Massachusetts; or
- ownership of any interest in real or tangible personal property located in Massachusetts.

Some examples of the types of income taxable to a nonresident include:

- all wages, salaries, tips, bonuses, fees and other compensation which relate to activities carried on in Massachusetts, regardless of where the compensation is paid;
- unemployment compensation related to previous Massachusetts employment;
- profit from a business, trade, profession, partnership or S corporation conducted in Massachusetts;
- rents and royalties from real and tangible personal property located in Massachusetts or from other business activities in Massachusetts;
- gain from the sale of real or tangible personal property located in Massachusetts; and
- interest and dividends, only if derived from or connected with Massachusetts business activity, or the ownership of Massachusetts real estate or tangible personal property.

Income from Massachusetts sources which is not taxed to residents is not taxed to nonresidents, e.g., interest on debt obligations of the U.S. and amounts received as Social Security and worker's compensation.

In general, the same exemptions and deductions allowed to residents are available to nonresidents to determine taxable income. These items are allowed, however, only to the extent they relate to, or are allocable to, Massachusetts source income.

Am I Carrying on a Trade, Business or Employment in Massachusetts as a Nonresident?

A nonresident generally does not have a trade, business or employment carried on in Massachusetts if his/her presence for business in Massachusetts is casual, isolated and inconsequential. A nonresident's presence for business will be considered casual, isolated and inconsequential if the nonresident's business presence in Massachusetts is ancillary to the nonresident's primary business or employment duties performed at a base of operations outside Massachusetts — for example, an occasional presence in Massachusetts for management functions, and other similar activities which are secondary to the individual's primary out-of-state duties.

Are Military Personnel Required to File?

If you enlisted in the service as a Massachusetts resident and have not established a new domicile (legal residence) elsewhere and if your gross income is more than \$8,000, you are required to file a Massachusetts income tax return. This applies even though you may be stationed outside of Massachusetts. The terms “legal residence” and “domicile” are used to denote that place where you have your permanent home and to which, whenever you are absent, you have the intention of returning. Nonresident military personnel stationed in Massachusetts may be subject to Massachusetts taxes and should file Form 1-NR/PY if they earn income from other than military sources.

No guidance is intended on the tax status of such pay under the laws of other states. Generally, when income is taxable in two jurisdictions, a credit for taxes paid to the other jurisdiction is allowed on the taxpayer's return in the state of his/her residence.

How Do I Determine My Legal Residence (Domicile)?

Your legal residence is determined by all the facts and circumstances in your case. If you have two or more residences, your legal residence is the one you regard as your true home or principal residence. You cannot choose to make your home in one place for the general purposes of life and in another for tax purposes. Your legal residence is usually the place where you maintain your most important family, social, economic, political and religious ties. A change of legal residence will not be accomplished by a temporary or protracted absence from a place; you must not intend to return.

Note: A person is also considered a resident if they maintain a permanent place of abode in Massachusetts and spend more than 183 days, in the aggregate, in the state. See Technical Information Release (TIR) 95-7 for a further explanation.

What is Gross Income For a Part-Year Resident?

As a part-year resident, you must file Form 1-NR/PY if your gross income was more than \$8,000 — whether received from sources inside or outside of Massachusetts. Gross income for a part-year resident includes the following:

- all wages, salaries, tips, bonuses, fees & other compensation;
- taxable pensions and annuities;
- alimony;
- income from a business, trade, profession, partnership, S corporation, trust or estate;
- rental, royalty and REMIC income;
- unemployment compensation;
- taxable interest and dividends;

- gambling winnings;
- capital gains;
- taxable portion of scholarships and fellowships; and
- any other income not specifically exempt.

Massachusetts gross income also includes the following which are not subject to the U.S. income tax:

- interest from obligations of states and their political subdivisions, other than Massachusetts and its political subdivisions; and
- income earned by a resident from foreign employment.

Massachusetts gross income does not include:

- interest on obligations of the U.S.; and
- amounts received as U.S. Social Security, public welfare assistance, Veterans Administration disability payments, G.I. Bill education payments, worker's compensation, gifts, accident or life insurance payments, or certain payments received by Holocaust survivors.

What Adjustments Must I Make as a Part-Year Resident?

Part-year residents must adjust income, deductions and exemptions when completing Form 1-NR/PY. In general, these items are reduced because all of your income will not be subject to Massachusetts tax. Your deductions and exemptions are based on the number of days you were a Massachusetts resident or the amount of income that is subject to Massachusetts tax.

Income: Lines 5 through 11, 24, 27 and 28

If you earned only a portion of the income you reported on your U.S. return while you were a Massachusetts legal resident, subtract from your U.S. income the amount earned and received while you were legally domiciled in another state or country. However, you may be required to include all income derived from Massachusetts sources earned while you were a nonresident (e.g., rental property in Massachusetts) on Schedule R/NR, Resident/Nonresident Worksheet.

Deductions: Lines 15 through 19

Most deductions are based on the actual amounts paid by you associated with the deduction for the period of time you were in Massachusetts.

Line 17 (the deduction for a dependent under age 12, or dependents age 65 or over as of December 31, 2002, or disabled dependent(s)), Schedule Y, line 5 (student loan interest deduction, Archer medical savings account (MSA) deduction and the deduction for clean fuel vehicles), Schedule Y, line 7 (college tuition deduction) and Schedule Y, line 8 (undergraduate student loan interest deduction) are the only deductions based on the proration of the number of days you were a Massachusetts resident.

For example, if you are entitled to claim one dependent under age 12, and if you lived in Massachusetts for only four months, you can claim a deduction equal to \$1,200 (one-third of the \$3,600 to which you are otherwise entitled). See line 2 on Form 1-NR/PY for the proration formula.

Lines 15, 16 and 18 and Schedule Y, lines 1 through 4, line 5 (moving expenses, self-employed health insurance deduction, qualified performing arts-related expenses, jury duty pay given to your employer, reforestation amortization, repayment of supplemental unemployment benefits under the Trade Act of 1974, employee business expenses of fee-basis state or local government officials, and deductible expenses related to income reported on U.S. Form 1040, line 21 and Massachusetts Schedule X, line 5) and Schedule Y, line 6 are based on the actual amounts paid or received for the period of time you were in Massachusetts. For example, you may only deduct the amount of alimony paid (Schedule Y, line 3) while you were a Massachusetts resident. Similarly, the deduction for penalties on the early withdrawal of savings is only available if the penalties were related to Massachusetts interest income reportable, or previously reported, on a Massachusetts tax return.

Exemptions: Lines 4a through 4f

Your total exemptions (line 4f) must be prorated based upon the ratio of days you were a Mass. resident. To adjust your exemptions, use the formula in line 2 and see line 22 instructions.

Earned Income Credit: Line 43

Your earned income credit (line 43) must be prorated based upon the ratio of days you were a Mass. resident. To adjust this credit, use the formula in line 2 and see line 43 instructions.

Should I Make Estimated Tax Payments in 2003?

Every taxpayer (whether a resident or nonresident) who expects to pay more than \$200 in Massachusetts income taxes on income which is not covered by Massachusetts withholding must pay Massachusetts estimated taxes using Massachusetts Form 1-ES, Estimated Income Tax Vouchers. See line 42 instructions for a further discussion of who must pay quarterly estimated taxes to the Department of Revenue.

How Do I File a Decedent's Return?

A final income tax return must be filed for a taxpayer who died during the taxable year. It must be signed and filed by his/her executor, administrator or surviving spouse for the portion of the year before the taxpayer's death. Be sure to fill in oval 1 if the taxpayer who was listed first on last year's income tax return is deceased, or oval 2 if the taxpayer who was listed second on last year's income tax return is deceased. Also, enclose a statement with the refund claimant's name and Social Security number clearly printed.

A joint return may be filed by a surviving spouse. In the case of the death of both spouses, a final return must be filed by their legal representative.

Any income received for the decedent for the taxable year after the decedent's death, and for succeeding taxable years until the estate is completed, must be reported each year on Massachusetts Form 2, Massachusetts Fiduciary Income Tax Return.

If the decedent's return shows a refund due, and if the Probate Court has not appointed a legal representative and none is contemplated, a Massachusetts Form M-1310, Statement of Claimant to Refund Due on Behalf of Deceased Taxpayer, must be enclosed with the return so the refund check may be made payable to the proper person.

When to File Your Return

Form 1-NR/PY is due on or before April 15, 2003.

How Do I File for an Extension?

To receive an extension of time to file, you must file an Application for Automatic Six-Month Extension of Time to File Massachusetts Income Tax, Massachusetts Form M-4868, and pay the amount of tax you expect to owe on or before the due date for filing your Massachusetts income tax return. The filing and approval of this form will extend the due date for six months. An approved extension means only that you will not be assessed a late penalty for filing your return after the due date. Interest is charged on any tax not paid by the original due date.

If you are filing for an extension and either owe no tax or choose to pay your tax due through Electronic Funds Withdrawal, you may file your application for extension by touch-tone telephone or via the Web (see page 3 for more information), or if you owe no tax, you may substitute U.S. Form 4868 for the Massachusetts extension form. Be sure to indicate on the form that this extension is for Massachusetts purposes.

Must I File on a Calendar Year Basis?

No. You may file on a fiscal year basis if you keep your books and records on that fiscal year basis and if you receive permission from the Commissioner of Revenue. If you file on a fiscal year basis, you must file on or before the fifteenth day of the fourth month after the end of the fiscal year.

What Should I Do if I Make a Mistake or Leave Something Off My Return?

If, after filing your income tax return, you receive an additional tax statement, such as a W-2 or 1099, or discover that an error was made, do not submit a second tax return. If corrections are necessary, you must file Massachusetts Form CA-6, Application for Abatement/Amended Return. This form is available at www.mass.gov/dor, or you may have one mailed to you by calling (617) 887-MDOR.

Name and Address

Use the preaddressed return in the front of the booklet we sent you if all of the preprinted information is correct. Be sure to enter your Social Security number(s) in the space(s) provided. If you received a preprinted Form 1-NR/PY booklet in the mail, be sure to retain the four-digit Personal Identification Number (PIN) printed on the back cover. You may need it use DOR's Web-based and/or Interactive Voice Response (IVR) applications, such as checking the status of your refund. If your address has changed, please make all of the necessary changes on the preprinted form. If you did not receive a preaddressed return, print the full name, address, and Social Security number of each person filing the return in the spaces provided. Enter names as they appear on your federal return.

Social Security Number(s)

Be sure to enter your Social Security number on your return, even if you received a preprinted booklet in the mail. Failure to show the correct Social Security number in the space provided will delay the processing of your return. If filing jointly, list your numbers in the order they appear on your federal return. Also, be sure your employer has listed the correct Social Security number on your Form W-2. If you are married, you must list your spouse's Social Security number even if you are filing a separate return.

Beginning January 1, 1997, each foreign person must use an identification number on any U.S. or Massachusetts tax return or refund claim filed. Certain aliens who cannot obtain Social Security numbers (SSNs) must obtain an IRS-issued individual taxpayer identification number (ITINs). This number can be obtained by filing Form W-7 with the IRS. The ITIN is not available for U.S. citizens or persons legally permitted to reside permanently or to work in the United States. These taxpayers qualify for SSNs and should obtain them from the Social Security Administration by filing Form SS-5. You may obtain Form SS-5 from your local Social Security Administration (SSA) or call the SSA at 1-800-772-1213.

In instances where you, or your spouse if filing jointly, are a nonresident alien, enter 'NRANRANRA' as your Social Security number in the appropriate space; if you have applied for but not yet received a Social Security number, enter 'APPAPPAPP.'

Residency Status

Fill in the "Nonresident" oval if you were not a resident of Massachusetts and you received Massachusetts source income. See the section "What is Massachusetts Source Income for Nonresidents?" on page 10 for an explanation of Massachusetts source income.

Fill in the "Part-year resident" oval if you were a resident of Massachusetts for less than the full year, you received Mass-

achusetts gross income in excess of \$8,000 and you did not receive Massachusetts source income while a nonresident.

Fill in the "Filing both as a nonresident and part-year resident" oval if both categories apply to you in the same tax year. See the section "Who Must File" on page 5. You must also complete and enclose with your return Schedule R/NR, Resident/Nonresident Worksheet. This worksheet is included in this booklet.

Name/Address Change

If you legally changed your name or address in 2002, fill in the oval. If you changed your name enclose a copy of your Social Security card or driver's license showing your new name. Failure to include this documentation could delay processing of your return. If you move after filing, be sure to leave a forwarding address with your local post office and file a Change of Address Form with the Massachusetts Department of Revenue. This form is available at www.mass.gov/dor.

Deceased Taxpayer

Be sure to fill in the appropriate oval if a taxpayer died during the taxable year. For further information, refer to the section "How Do I File a Decedent's Return?" on page 12 of the instructions.

Voluntary Contribution to Massachusetts Election Campaign Fund (for Part-Year Residents Only)

You, and your spouse if filing jointly, may voluntarily contribute \$1 each to the Massachusetts Election Campaign Fund. The purpose of the fund is to provide limited public financing for campaigns for statewide and legislative office and the Governor's Council of candidates participating in the program set up under the 1998 Massachusetts Clean Elections Law. This contribution will not change your tax or reduce your refund.

Note: Lines without specific instructions are considered to be self-explanatory.

1 Filing Status

Note: More than one filing status may apply to you. If so, you may wish to figure your taxes based upon more than one filing status to see which status is to your benefit. If you are not sure about your filing status, call DOR's TaxTalk system during non-business hours at (617) 887-MDOR or toll-free in Massachusetts 1-800-392-6089 and enter TaxTalk topic 154.

Single

Fill in the "Single" oval if you were single as of December 31, 2002. This status applies to you if, at the close of the taxable year, you fit into any of the following categories:

- you were unmarried;
- you were a widow or a widower whose spouse died before 2002; or
- you were legally separated under a final judgment of the probate court.

Please note that you are not single if: 1) you have obtained a judgment of divorce which has not yet become final; 2) you have a temporary support order; or 3) you and your spouse simply choose to live apart.

Married Filing Joint Return

Fill in the **"Married filing joint return"** oval if you were legally married as of December 31, 2002, and you elect to file a joint return. A joint return is allowed even if only one spouse had income. Both spouses are responsible for the accuracy of all information entered on a joint return, and both must sign. If your spouse died during 2002, you may still choose to file a joint return.

Please note that a joint Form 1-NR/PY is **not** allowed unless each spouse is reporting income for the same resident or nonresident period. For example, John (a Massachusetts resident) and Jane (a New Hampshire resident) both work in Massachusetts. After they were married in June 2002, John moved to New Hampshire to live with Jane. They cannot file a joint return because their nonresident tax years are different. (Jane lived in New Hampshire during the entire year, but John only lived there for six months.)

Married Filing Separate Return

Fill in the **"Married filing separate return"** oval if you were legally married as of December 31, 2002, but you elect to file a separate return. Enter your spouse's Social Security number in the space provided.

Head of Household

Fill in the **"Head of household"** oval if you qualify to file this status federally. This status is for unmarried people who paid over half the cost of keeping up a home for a qualifying person, such as a child who lived with you or your dependent parent. Certain married people who lived apart from their spouse for the last six months of 2002 may also be able to use this status. See IRS Publication 501, Exemptions, Standard Deduction, and Filing Information, for more information.

2 Part-Year Resident Proration Formula

Part-year residents must fill out the proration formula in line 2. Enter the dates you were a Massachusetts resident in the spaces provided. Then, enter the total days you were a Massachusetts resident and divide this number by 365 and carry this division out to four decimal places. Failure to do so may delay the processing of your return. This figure is used to determine the portion of certain deductions, exemptions and the earned income credit a part-year resident may be eligible for.

3 Total U.S. Income

Enter the amount of your total income before adjustments from your U.S. return — U.S. 1040, line 22; 1040A, line 15; 1040EZ, line 4; 1040NR, line 23; 1040NR-EZ, line 7; or U.S. Telefile Tax Record, item I. This item is requested for administrative reasons;

it is not used in the calculation of your tax. **Note:** If you are filing Form 1-NR/PY as "married filing separate return" and you filed your U.S. return jointly, the amount entered in line 3 should only be the amount attributable to your portion of total U.S. income.

Whole-Dollar Method

Rounding off all amounts on your return will hasten processing of your return. If doing so, please fill in the appropriate oval. Then, round off, to the nearest dollar, all amounts on the return and on any attached schedules.

► Do not use the whole-dollar method in calculations on worksheets that you use to reach the amounts shown on your return.

Noncustodial Parent

Fill in this oval if you are a **"noncustodial parent."** A noncustodial parent is defined as a person who has a minor child, but does not live with the child.

Note: If you are the biological parent of a child, but your parental rights have been terminated, you are not the noncustodial parent of that child.

4 Exemptions

Line 4a: Personal Exemptions

Each taxpayer is entitled to claim a personal exemption. The amount of your personal exemption depends on your filing status as filled in line 1: single, married filing a joint return, married filing a separate return or head of household.

- If you are single or married filing a separate return, enter \$3,300 in item a.
- If filing as head of household, enter \$5,100 in item a.
- If married filing a joint return, enter \$6,600 in item a.

Line 4b: Number of Dependents

You may claim a \$1,000 exemption for each of your dependents if you claimed them on your U.S. return. Enter in the box in item b the number of the dependents you listed on U.S. Form 1040 or 1040A, line 6c or U.S. Form 1040NR, line 7c. Do not include yourself or your spouse. Then, multiply that total by \$1,000 and enter the total amount in line 4b.

Note: In a few cases, the number of dependents claimed for Massachusetts purposes and for U.S. purposes may differ. For U.S. tax purposes, a dependent exemption is not allowed for a person who would otherwise be a dependent but who files his/her own income tax return and claims a personal exemption. For Massachusetts tax purposes, you can claim a dependent exemption for such a person. If you claim such a dependent in Massachusetts, increase the number reported in item b from your U.S. return by the number of such additional dependents.

Line 4c: Age 65 or Over Before 2003

You are allowed an additional \$700 exemption if you were age 65 or over before January 1, 2003. If your spouse was age 65 or

over and you are filing a joint return, you may also claim a \$700 exemption for your spouse. Fill in the appropriate oval(s) and enter the total number of persons age 65 or over in the small box. Then, multiply that total by \$700 and enter the total amount in line 4c.

Line 4d: Blindness Exemption

You are allowed an additional \$2,200 exemption if you are legally blind. If your spouse is also legally blind and you are filing a joint return, you may also claim a \$2,200 exemption for your spouse. Fill in the appropriate oval(s) and enter the total number of blindness exemptions in the small box. Then, multiply that total by \$2,200 and enter the total amount in line 4d.

Legal Definition of Blindness

You are legally blind and qualify for the blindness exemption if your visual acuity with correction is 20/200 or less in the better eye, or if your peripheral field of vision has been contracted to a 10-degree radius or less, regardless of visual acuity.

Line 4e: Other: Medical and Dental Expenses/Adoption Agency Fee

You may claim an exemption for medical and dental expenses paid during 2002 only if you itemized these expenses on your U.S. Form 1040, Schedule A. If you are married filing a joint U.S. Form 1040, you must file a joint Massachusetts Form 1-NR/PY to claim this exemption. Enter in line 4e, item 1 the amount reported on your U.S. Form 1040, Schedule A, line 4.

If you paid adoption fees to a licensed adoption agency during 2002, you are eligible for an exemption of the total amount of the fees paid during the year. Fees paid during 2002 to an agency licensed to place children for adoption on account of the adoption process of a minor child regardless of whether an adoption actually took place during 2002 should also be included for this exemption. Enter this amount in line 4e, item 2.

Note: No deduction is allowed for any portion of expenses that are paid or reimbursed by an employer and excluded from gross income under IRC sec. 137.

Enclose a statement showing the name and address of the licensed adoption agency and the agency fees. Add item 1 and item 2 and enter the total in line 4e.

Line 4f: Total Exemptions

Add lines 4a through 4e and enter the total in line 4f. This amount should also be entered on line 22a of Form 1-NR/PY.

Lines 5 through 11

Income received by nonresidents is taxed only when it is from Massachusetts sources. Refer to the general instructions in this booklet for a definition of Massachusetts source income. The instructions for each of these lines will describe Massachusetts source income in more detail. For part-year residents, in-

come received while a resident, whether from sources inside or outside of Massachusetts, is taxable.

► Your entries must agree with the appropriate amounts on your copies of Forms W-2 and 1099, and/or required schedules for lines 8 and 9. Nonresidents, if your actual Massachusetts income is not known, see the Nonresident Apportionment Worksheet in line 13 and accompanying instructions. **Note:** You cannot apportion Massachusetts wages as shown on Form W-2.

5.3% Income

DOR and the IRS maintain an extensive exchange program, routinely sharing computer tapes and audit results. Discrepancies between income, deductions, and schedules reported federally and on this return, except those allowed under state law, will be identified and may result in a state audit or further investigation.

Note: If filing as both a nonresident and part-year resident, you must complete Schedule R/NR, Resident/Nonresident Worksheet, before proceeding.

5 Wages, Salaries, Tips, and Other Employee Compensation

Report in line 5 total state wages from Form(s) W-2. Enter the amount(s) stated as Massachusetts wages. **Note:** Part-year residents, income earned while a Massachusetts resident in another state is subject to taxation in Massachusetts. In most cases your total wages will be the same amount reported on your U.S. 1040 or 1040A, line 7; U.S. 1040EZ, line 1; U.S. 1040NR, line 8; or U.S. 1040NR-EZ, line 3 unless:

- you or your spouse earned income from employment outside Massachusetts (nonresidents only);
- you were a Massachusetts legal resident working in a foreign country (part-year residents only);
- you were a legal resident of Massachusetts for only a part of 2002; or
- you were a state or local employee and made contributions to a Massachusetts state or local pension plan.

Differences Between Wages for Massachusetts Tax Purposes and Those Reported on Your U.S. Return

► **Nonresidents earning a portion of income from employment outside Massachusetts.** If a portion of the wage income reported on your U.S. return was earned outside Massachusetts, the amount in line 5 should not include wages earned in another state or country.

► **Massachusetts legal residents working in a foreign country while a Massachusetts resident.** Income earned in a foreign country is subject to taxation in Massachusetts. If you excluded part or all of the compensation earned in a foreign country on

your U.S. return (under sec. 911 of the U.S. IRC), you must include any such amount in line 5 for Massachusetts tax purposes.

► **Part-year residents of Massachusetts.** If you earned only a portion of the income you reported on your U.S. return while you were a Massachusetts legal resident, subtract from your U.S. wages the amount earned and received while you were legally domiciled in another state or country.

► **State or local employees contributing to pension plans.** If you are a Massachusetts state, city, town or county employee and contributed to your pension plan, enter in line 5 the Form W-2 state wage amount. This amount will be greater than the U.S. amount because your pension contributions are excluded from your income for U.S. tax purposes. Contributions up to \$2,000 may still be deducted in line 15a or 15b for Massachusetts tax purposes.

6 Taxable Pensions and Annuities

Nonresidents. Under Title 4 of the United States Code, section 114, payments to nonresidents from certain qualified pension plans are not subject to tax.

Qualified plans include: a qualified trust under IRC sec. 401(a) exempt from taxation under IRC sec. 501(a); simplified IRC sec. 408(k) plans; IRC sec. 403(a) annuity plans; IRC sec. 403(b) annuity contracts; IRC sec. 7701(a) (37) individual retirement plans; eligible deferred compensation plans of state and local governments and tax exempt organizations as defined by IRC sec. 457; IRC sec. 414(d) government plans; a trust or trusts described in IRC sec. 501(c) (18); and any plan, program or arrangement described in IRC sec. 3121(v)(2)(C) if payments are made at least annually and spread over the actuarial life expectancy of the beneficiaries, or if payments are spread over at least a ten-year period. Such income is also protected from state taxation if the plans are trusts under IRC sec. 401(a), but exceed limits laid down in IRC secs. 401(k), 401(m), 402(g), 403(b), 408(k) or 415 or any other limitation on contributions or benefits which may apply in the Code.

Retirement or retainer pay of a member or former member of a uniformed service computed under 10 U.S.C. chapter 71 (military pensions) received by a nonresident is also exempt.

Any income from pensions related to a Massachusetts trade, business or employment that is not derived from one of the qualified pension plans listed above is taxable. Enter in line 6 the portion of those pensions reported on your U.S. Form 1040, line 16a or U.S. Form 1040A, line 12a, that are taxable to Massachusetts nonresidents.

Part-year residents. Income from most private pensions or annuity plans is taxable in Massachusetts. You must report the taxable pension income you received while a resident of Massachusetts. Certain government pensions, however, are exempt under Massachusetts law. In general, exempt pensions include

contributory pensions from the U.S. government or the Commonwealth of Massachusetts and its political subdivisions, and noncontributory military pensions. The following section describes some specific pensions which are exempt. If your pension is not exempt, you should generally enter in line 6 the taxable amount reported on your U.S. Form 1040, line 16b or U.S. Form 1040A, line 12b. In some cases, however, Massachusetts law requires an adjustment to the federal amount. Distributions from annuity, stock bonus, pension, profit-sharing or deferred payment plans or contracts described in secs. 403(b) and 404 of the U.S. IRC must be adjusted to account for your contributions that have been previously taxed. Subtract from such income (as reported on your U.S. Form 1040, line 16a or U.S. Form 1040A, line 12a) the amount of your contributions which were previously taxed by Massachusetts until the total of your taxed contributions is received. If your pension falls into this category, enter the adjusted amount in line 6 and explain briefly (in an enclosed statement) why this amount is different than the amount reported on your U.S. return. If you are receiving distributions from an IRA or Keogh plan, do not report the income here; instead, please refer to the instructions for Schedule X, line 2 on page 31.

What pensions are exempt?

► Pension income received from a contributory annuity, pension, endowment or retirement fund of the U.S. government or the Commonwealth of Massachusetts and its political subdivisions.

► Pensions from other states or its political subdivisions which do not tax such income from Massachusetts or its political subdivisions may be eligible to be deducted from Massachusetts taxable income. This pension income, however, should be reported in line 6. Refer to Schedule Y, line 6 instructions to determine eligibility for this deduction.

► Noncontributory pension income or survivorship benefits received from the U.S. uniformed services (Army, Navy, Marine Corps, Air Force, Coast Guard, commissioned corps of the Public Health Service and National Oceanic and Atmospheric Administration) is exempt from taxation in Massachusetts.

► Massachusetts state court judges who were appointed on or after January 2, 1975 are participants in the Massachusetts contributory retirement system and their pensions are nontaxable. State court judges who were appointed prior to January 2, 1975 receive taxable noncontributory pensions.

If you retired under Chapter 32, Sections 56 through 60 of Massachusetts General Laws and are a veteran who began Massachusetts state service prior to July 1, 1939, all or part of your pension income may be subject to tax. If you elected to receive your proceeds from contributions in one lump-sum distribution, your original contributions to the retirement system

9 Rental, Royalty, REMIC, Partnership, S Corporation, Trust Income or Loss

Nonresidents. Report the amount of Massachusetts source income or loss from the items listed above.

Part-year residents. Report the amount of income or loss from the items listed, received while a resident of Mass., whether derived from sources inside or outside of Massachusetts.

Enter in line 9 the total of: Massachusetts Schedule E, Part I, line 5; Part II, line 8; and Part III, line 11. Remember to subtract losses when calculating the total. You must enclose Massachusetts Schedule E and a copy of U.S. Schedule E. Explain on an enclosed sheet any differences in amounts entered on the Massachusetts and U.S. schedules. See Massachusetts Schedule E instructions for an explanation of possible differences.

10 Unemployment Compensation

Nonresidents. Enter the portion of your unemployment compensation reported on U.S. Form 1040, line 19; U.S. Form 1040A, line 13; U.S. Form 1040EZ, line 3; U.S. Form 1040NR, line 20; or U.S. Telefile Tax Record, item D, related to previous Massachusetts employment. Only unemployment compensation related to previous Massachusetts employment is taxable to nonresidents. If you elected voluntary withholding of Massachusetts state income taxes on your unemployment compensation, be sure to include the amount of Massachusetts state income tax withheld as reported on Form 1099-G on Form 1-NR/PY, line 39 and attach with a single staple, where indicated on the return, Form 1099-G.

Part-year residents. Enter in line 10 the amount of unemployment compensation reported on U.S. Form 1040, line 19; U.S. Form 1040A, line 13; U.S. Form 1040EZ, line 3; U.S. Form 1040NR, line 20; or U.S. Telefile Tax Record, item D, received while you were a resident of Massachusetts, whether related to employment inside or outside of Massachusetts. If you elected voluntary withholding of Massachusetts state income taxes on your unemployment compensation, be sure to include the amount of Massachusetts state income tax withheld as reported on Form 1099-G on Form 1-NR/PY, line 39 and attach with a single staple, where indicated on the return, Form 1099-G.

11 Other Income (from Schedule X)**Alimony Received, Taxable IRA/Keogh and Roth IRA Distributions, Massachusetts State Lottery Winnings, Other Gambling Winnings, Fees and Other 5.3% Income**

"Other 5.3% income" includes the items listed above and must be included on Schedule X. Enter the total from Schedule X, line 6. Not less than "0." Be sure to enclose Schedule X with your return. Enclose an additional statement if more space is needed. Failure to enclose this schedule will delay the processing of your return. See Schedule X instructions on page 30.

12 Total 5.3% Income

Add lines 5 through 11 and enter the total in line 12. Remember to subtract any losses marked with an "X" when calculating the total.

Apportionment — Nonresidents Only

Sometimes your business or employment requires you to work both inside and outside Massachusetts, but you do not know the actual amount of income you earned from working in Massachusetts. In this case, you must apportion your income so that only the correct portion (the amount attributable to Massachusetts) will be taxed by Massachusetts. Some nonresidents must use the Nonresident Apportionment Worksheet in line 13 for this purpose.

Who Cannot Apportion Income?

If you know the actual amount of your Massachusetts source income, do not apportion. Report your income taxable in Massachusetts on your Massachusetts return. Examples of nonresidents who **cannot** apportion include:

- ▶ an employee whose actual Massachusetts income is shown on Form W-2;
- ▶ an employee whose Form W-2 does not indicate initially his/her actual Massachusetts income but whose employer issues a corrected Form W-2 or other statement which breaks down this amount. Since your employer is required by law to withhold Massachusetts tax on your Massachusetts wages, this breakdown will be easy to obtain; and
- ▶ a self-employed person whose actual Massachusetts income is known, such as a surgeon who comes to Massachusetts to perform a specific operation for a set fee.

In the few cases when your employer fails to issue a separate Form W-2 that includes only Massachusetts earnings, you may use the Nonresident Apportionment Worksheet to adjust your earnings.

Who Must Use the Nonresident Apportionment Worksheet?

If your employment or business took you both inside and outside Massachusetts and you do not know the actual amount of income you earned in Massachusetts, you must use the Nonresident Apportionment Worksheet if you are a self-employed person or employee who is on an hourly, daily, weekly, monthly or mileage basis, or whose compensation depends upon sales, at least some of which take place outside of Massachusetts.

Who Can Apportion Income but Cannot Use the Nonresident Apportionment Worksheet?

If you do not know the actual amount of income you earned in Massachusetts from one business or employment, but you do not fit into any of the categories listed in the preceding section, you should **not** use the Nonresident Apportionment Worksheet. See the section on “Special Apportionment Methods” for your apportionment method.

Examples of nonresidents who must apportion income using one of these special methods include:

- ▶ an independent business or professional person whose income does not depend on sales, days or mileage;
- ▶ an entertainer or athlete whose income does not depend solely on receipts or winnings;
- ▶ a general or limited partner in a partnership; and
- ▶ a shareholder of an S corporation with Massachusetts source income.

Apportionment Methods

If you use the Nonresident Apportionment Worksheet, fill in the oval for the appropriate basis and then follow the instructions. If you have more than one business or employment requiring the use of the worksheet, complete and enclose one worksheet for each business or employment.

▶ **Working days basis.** This basis should be used by employees or self-employed persons who qualify to use the Nonresident Apportionment Worksheet and who are compensated on an hourly, daily, weekly or monthly basis. The income of these taxpayers is to be allocated to Massachusetts in the proportion that the amount of time spent working in Massachusetts bears to the total working time.

▶ **Mileage basis.** An employee or self-employed person whose compensation depends on miles traveled is taxed on that portion of total compensation received in which the miles traveled within Massachusetts bear to total miles traveled.

▶ **Sales basis.** For an employee or self-employed person whose compensation depends upon sales or commissions, taxable income includes that portion of total compensation received which the sales made inside Massachusetts bear to total sales. (For the purposes of making this allocation, all sales for which the taxpayer takes orders inside Massachusetts are attributable to this state, regardless of whether the formal acceptance of the contract of sale takes place inside or outside Massachusetts.)

Special Apportionment Methods

If you earned income both inside and outside Massachusetts from one business or employment, and your actual Massachusetts income is not known and you cannot use the Nonresident Apportionment Worksheet in line 13, use the following appropriate apportionment method.

▶ **Self-employed and professional persons.** If you earned income from both inside and outside Massachusetts and your books do not accurately reflect your Massachusetts source income, you must use a three-factor formula to apportion your Massachusetts income. Instructions for this method of apportionment are in Massachusetts Regulation 830 CMR 62.5A.1.

▶ **Entertainers and professional athletes.** If you are a nonresident entertainer who performed in Massachusetts and you were not paid specifically for the performance in Massachusetts, or if you are a nonresident professional athlete who took part in performances, bouts, meets, matches or games that occurred in Massachusetts and you were not paid for the specific event played in Massachusetts, you must use the apportionment formula set forth in Massachusetts Regulation 830 CMR 62.5A.1.

▶ **Nonresident partners.** If you are a nonresident general or limited partner, you are taxed on your distributive share of the income received by the partnership to the extent that the partnership income is Massachusetts source income, determined as if the partnership were a nonresident individual. If you are entitled to apportionment, the partnership will apportion its income and notify you of your share.

▶ **Nonresident shareholders of an S corporation.** If you are a nonresident shareholder in an S corporation, you are taxed on the distributive share of income received by the S corporation to the extent that the S corporation income is Massachusetts source income. If you qualify for apportionment, the S corporation will apportion its income and notify you of your share.

13 Nonresident Apportionment Worksheet

13a. If your income is measured by working days, enter the number of days you worked outside Massachusetts.

13b. Enter the number of days you worked inside Massachusetts. (If you spent a working day partly inside and partly outside Massachusetts, treat the day as having been spent one-half inside the state.)

13c. Enter the total days worked both inside and outside Massachusetts (the sum of lines 13a and 13b).

13d. Enter your nonworking days. Your nonworking days are those days during the year (or during the period you worked, if your job lasted less than a year) that you were not required to work, such as Saturdays, Sundays, holidays, sick days, vacation and leave with or without pay. Complete the remainder of the Nonresident Apportionment Worksheet as indicated, and enter your Massachusetts income from line 13g in the appropriate line on Form 1-NR/PY. For example, if you are apportioning your wages, enter the amount from line 13g in line 5.

If you are using the mileage or sales basis, substitute mileage or sales for working days and complete all items in the worksheet, except line 13d. Indicate what basis you are using by filling in the appropriate oval, and enter your Massachusetts income from line 13g in the appropriate line on Form 1-NR/PY.

Nonresident Deduction and Exemption Ratio

Since nonresidents are only taxed on income from Massachusetts sources, the deductions and exemptions allowed to them are limited by the amount of this income. This happens in two ways. The deductions in line 15 and Schedule Y, lines 1, 2, 4, 5 (certain amounts only — see Schedule Y, line 5 instructions) and 6 must be matched to specific items of income taxed on Form 1-NR/PY. Other deductions and all exemptions must be prorated by the ratio of a taxpayer's Massachusetts source income to his/her total income.

14 Nonresident Deduction and Exemption Ratio

All nonresident taxpayers must complete lines 14a to 14g to arrive at this ratio. The ratio will be used to determine what amounts, if any, you may deduct in lines 16 and 17; Schedule Y, line 3 (alimony paid deduction), Schedule Y, line 5 (student loan interest deduction, Archer medical savings account (MSA) deduction and the deduction for clean fuel vehicles), Schedule Y, line 7 (college tuition deduction), Schedule Y, line 8 (undergraduate student loan interest deduction); the amount of your exemptions in line 22a; and the earned income credit in line 43.

If married filing jointly, include in each line the income for both spouses. Enter any loss as "0."

14a. Enter in line 14a total 5.3% income from line 12.

14b. Enter in line 14b tax exempt Massachusetts bank interest from the smaller of line 7a or line 7b.

14c. Read the instructions for lines 24, 27 and 28. If these items apply to you, combine Schedule B, Part 1, line 7 and Part 2, line 13 (but not less than "0") and Schedule D, Part 1, line 12, columns A, B, C, D, E and F and Part 2, line 11 (but not less than "0"), and enter the total in line 14c. If there is no entry in Schedule B, Part 2, line 7, enter the amount from Form 1-NR/PY, line 24.

14e. Enter in line 14e the total income from non-Massachusetts sources you received during the tax year covered by this return. This is the additional income that would have been reported by you if you had been a Massachusetts resident that you received from non-Massachusetts sources. This amount is often not the same as the difference between your total U.S. income reported in line 3 and your Massachusetts source income reported in line 14d, due to the differences between Massachusetts and fed-

eral tax laws. **Note:** Be certain **not** to include any amounts already reported in line 14d.

To reconcile the two amounts, the following types of income included in the U.S. total income (Form 1-NR/PY, line 3), but not taxable in Massachusetts should be subtracted from the U.S. total before completing line 14e:

- ▶ Social Security and Tier I Railroad Retirement benefits;
- ▶ pensions from contributory retirement plans of the U.S., or Massachusetts and its political subdivisions;
- ▶ pension income from the U.S. military;
- ▶ U.S. bond interest;
- ▶ state tax refunds; and
- ▶ Keogh and 403(b) distributions related to contributions previously taxed by Massachusetts.

Income from the following categories which is not included in U.S. total income (Form 1-NR/PY, line 3) must be added back to calculate the total income that would be reported as Massachusetts income had the taxpayer been a Massachusetts resident in line 14e:

- ▶ bond interest from other states;
- ▶ up to \$70,000 in foreign-earned income;
- ▶ contributions to a pension plan by Massachusetts state or local employees; and
- ▶ net operating loss carryforward.

14f. Add line 14d and line 14e. If your total income in line 3 exceeds the amount reported in line 14f by more than 10%, you should enclose a statement explaining the reasons for the difference.

14g. Divide line 14d by line 14f. Carry this division out to four decimal places. Failure to do so may delay the processing of your return. Enter the result in line 14g. This is your ratio for deductions and exemptions. It represents the relationship of your Massachusetts source income to your total income.

Deductions

Lines 15 through 19

Massachusetts allowable deductions differ from "Itemized Deductions" on Schedule A of U.S. Form 1040. You may claim only the deductions specified on Massachusetts Form 1-NR/PY, lines 15 through 18 and Schedule Y.

15 Amount Paid to Social Security (FICA), Medicare, Railroad, U.S., Massachusetts Retirement Systems

Nonresidents, if as a condition of Massachusetts business or employment, you have paid into any of the retirement systems listed above during 2002, you may deduct those contributions, up to a maximum of \$2,000. **Part-year residents** may deduct

contributions attributable to business or employment while a Massachusetts resident, up to a maximum of \$2,000.

Enter in lines 15a and 15b the amount you, and your spouse if filing jointly, paid to Social Security (FICA), Medicare or Railroad Retirement and the U.S. or Massachusetts Retirement Systems during 2002 as shown on your Form W-2 that is directly related to income taxable by Massachusetts included in line 12, but not more than \$2,000 each. Payment amounts may not be combined or transferred from one spouse to the other. Add items 15a and 15b and enter the result in line 15. Be sure to add any amount of Medicare tax withheld as shown on Form W-2 to the amount of Social Security tax withheld, the total not to exceed \$2,000 per person.

Medicare premiums deducted from your Social Security or retirement payments are **not** deductible.

Payments to an IRA, Keogh, Simplified Employee Pension plan (SEP) or Savings Incentive Match Plan for Employees (SIMPLE) Account are not deductible for Massachusetts income tax purposes.

Lines 16 and 17

Massachusetts law allows an option for deducting expenses related to dependent children. Please read instructions for both lines 16 and 17 to determine if you qualify and to decide which deduction is better for you. You cannot claim a deduction in both lines 16 and 17.

16 Child Under Age 13, or Disabled Dependent/Spouse Care Expenses

Massachusetts generally allows the same expenses as the U.S. Government for employment-related expenses for the care of a qualified child under the age of 13, a disabled dependent or a disabled spouse. Complete the following worksheet in order to calculate your Massachusetts child or disabled dependent/spouse care expense deduction.

Note: Taxpayers who received dependent care benefits should complete a pro forma U.S. Form 2441 or U.S. Form 1040A, Schedule 2. When completing this pro forma form taxpayers should enter \$4,800 (or \$9,600 for two or more qualifying persons) in line 22 of U.S. Form 2441 or U.S. Form 1040A, Schedule 2. The amount from this pro forma Form 2441, line 26 or U.S. Form 1040A, Schedule 2, line 26 should then be entered in line 1 of the following worksheet.

► If you choose to take a deduction in line 16, you may not take the deduction in line 17.

Line 16 Worksheet — Child Under 13 or Disabled Dependent/Spouse Care Deduction

Use the following worksheet to calculate your Massachusetts child under age 13 or disabled dependent/spouse care deduction.

Part-year residents, enter amounts paid while a Mass. resident.

1. Enter the amount of qualified expenses you incurred and paid in 2002 for a qualifying person(s). This amount may exceed the federal limit of \$2,400 for one qualifying person or \$4,800 for two or more persons. However, do not enter more than \$4,800 for one qualifying person or \$9,600 for two or more persons
2. Enter the amount from U.S. Form 2441, line 4, or U.S. Form 1040A, Schedule 2, line 4
3. Enter the amount from U.S. Form 2441, line 5, or U.S. Form 1040A, Schedule 2, line 5
4. Enter the smallest of line 1, 2 or 3
5. If you paid 2001 expenses in 2002, enter the amount of the allowed 2001 expenses used to compute the credit on U.S. Form 2441, line 9, or U.S. Form 1040A, Schedule 2, line 9. Otherwise, enter "0"
6. Add lines 4 and 5.
7. Part-year residents, enter here the amount from line 6 and in Form 1-NR/PY, line 16; nonresidents, multiply line 6 by Form 1-NR/PY, line 14g and enter the result here and in Form 1-NR/PY, line 16

17 Dependent Member(s) of Household Under Age 12, or Dependents Age 65 or Over (not you or your spouse) as of December 31, 2002, or Disabled Dependent

You may deduct \$3,600 for a dependent member of household, or \$7,200 for two or more dependents, under age 12, or dependent age 65 or over (not you or your spouse) as of December 31, 2002, or disabled dependent. Only if single, head of household or married filing jointly. Enter the number of qualified dependents in line 17a, not to exceed two, and multiply that amount by \$3,600 and enter that result in the line provided.

► Nonresidents, multiply this amount by line 14g and enter the result in line 17 of Form 1-NR/PY. Part-year residents, multiply this amount by line 2 and enter the result in line 17 of Form 1-NR/PY.

► You may claim an amount in line 17 only if claiming "0" in line 16.

18 Rental Deduction

Nonresidents are allowed a deduction equal to 50% of the rent they pay, up to a maximum of \$3,000, for their principal residence only if it is located in Massachusetts and is their sole residence. (Non-Massachusetts rent is never deductible.) Many nonresidents rent a house or apartment in Massachusetts, but few qualify for this deduction. This is because the house or apartment rented here is not their principal residence. Only those nonresidents who rented a house or apartment in Mass-

achusetts and have no family home or other dwelling to which they normally return (or to which they could return in the future) in any other state or country, can claim this deduction. Complete line 18 only if you filled in the "no" oval below line 18. Enter the total amount of qualified rent paid by you during 2002 in line 18a. Divide line 18a by 2 and enter the result, **or \$3,000** (\$1,500 if married filing a separate return) — **whichever is smaller** — in line 18. **Part-year residents** are entitled to the rental deduction equal to 50% for the rent they paid during 2002 (up to a maximum of \$3,000 per return) for their principle residence while a resident of Massachusetts. Enter the total amount of qualified rent paid by you during 2002 in line 18a. Divide line 18a by 2 and enter the result, **or \$3,000** (\$1,500 if married filing a separate return) — **whichever is smaller** — in line 18.

How Do I Calculate My Rental Deduction If I Am Married Filing Separately?

If a husband and wife file separate returns, they are each entitled to a rental deduction equal to 50% of the rent each pays, not to exceed \$1,500 per return. However, a married couple filing separately may allocate the rent deduction differently, provided the amount taken by each spouse does not exceed 50% of the rent actually paid by that spouse, and provided their combined rental deductions do not exceed \$3,000. If this results in one spouse claiming a deduction in excess of \$1,500, that spouse must enclose with his/her return a statement signed by the other spouse indicating consent to the allocation. The statement must contain the name, address and Social Security number of the consenting spouse and the amount of rental deduction taken by that spouse.

19 Other Deductions (from Schedule Y)

Allowable Employee Business Expenses, Penalty on Early Savings Withdrawal, Alimony Paid, Amounts Excludible Under MGL Ch. 41, Sec. 111F or U.S. Tax Treaty, Student Loan Interest Deduction, Medical Savings Account Deduction, Moving Expenses, Self-Employed Health Insurance Deduction, Certain Qualified Deductions From U.S. Form 1040, Deductible Amount of Qualified Contributory Pension Income from Another State or Political Subdivision, College Tuition Deduction and Undergraduate Student Loan Interest Deduction

"Other deductions" include the items listed above and must be included on Schedule Y. Enter the total from Schedule Y, line 9. Be sure to enclose Schedule Y with your return. Failure to do so will delay the processing of your return. See Schedule Y instructions on page 32.

22 Exemption Amount

Enter amount from Exemption Section, line 4, item f in line 22a.

Nonresidents. Prorate your exemptions using the ratio of your Massachusetts income to your total income by multiplying line

22a by line 14g and entering the result in line 22. This amount represents your prorated exemptions.

Part-year residents. Prorate your total exemptions claimed on Form 1-NR/PY by multiplying line 22a by line 2 and entering the result in line 22. This amount represents your prorated exemptions as a part-year resident.

23 5.3% Income After Exemptions

Subtract line 22 from line 21. Enter the result in line 23, but not less than "0."

If line 22 exceeds line 21 and you were the beneficiary of an estate or trust taxed in Massachusetts, or if you received interest income (other than interest from Massachusetts banks), dividends or capital gain income, read the following section and complete the worksheet for Schedule B, line 36 and Schedule D, Part 1, line 21 and Schedule D, Part 2, line 20 on page 23, if applicable. All others proceed to line 24.

Applying Exemptions for the Beneficiary of an Estate or Trust Taxed in Massachusetts

If you are reporting income on Form 1-NR/PY and were also the beneficiary of an estate or trust, you may apply excess exemptions to your income taxed at 5.3% on Form 2, Massachusetts Fiduciary Income Tax Return. If you are single, head of household, or married filing jointly, you may then apply any remaining excess exemptions to your interest income (other than interest from Massachusetts banks), dividends or 12% capital gain income reported on Form 1-NR/PY. Any excess amount should then be applied against interest income (other than interest from Massachusetts banks), dividends or 12% capital gain income reported on Form 2 before applying any remaining excess amount against 5% income reported on Form 1-NR/PY. Any excess amount remaining should then be applied against 5% income reported on Form 2 before applying any remaining excess amount against 4% income reported on Form 1-NR/PY. Any excess amount remaining should then be applied against 4% income reported on Form 2 before applying any remaining excess amount against 3% income reported on Form 1-NR/PY. Any excess amount remaining should then be applied against 3% income reported on Form 2 before applying any remaining excess amount against 2% income reported on Form 1-NR/PY. Any excess amount remaining should then be applied against 2% income reported on Form 2 before applying any remaining excess amount against 1% income reported on Form 1-NR/PY. Any excess amount remaining should then be applied against 1% income reported on Form 2 before applying any remaining excess amount against 0% income reported on Form 1-NR/PY. Any excess amount remaining should then be applied against 0% income reported on Form 2 before applying any remaining excess amount against 5.3% capital gain income reported on Form 1-NR/PY. Any excess amount still remaining should then

Long-Term Capital Gain Tax

be applied against 5.3% capital gain income reported on Form 2. You must complete and file with your Form 2 a copy of Form 20A, Beneficiary's Claim for Exemptions Applicable to Fiduciary Income, in order to apply the excess exemptions to your Form 2 income. Form 20A is included in the Form 2 booklet.

24 Interest and Dividend Income

If you have any interest income other than interest from deposits in banks located in Massachusetts, dividend income in excess of \$1,500, certain capital gains or losses, or any adjustments to interest income (other than interest from Massachusetts banks), you must complete Schedule B. Be sure to enclose Massachusetts Schedule B. To determine if you need to file Schedule B, refer to the Schedule B instructions beginning on page 37 of this booklet.

Enter in line 24 the amount from Schedule B, line 38. If not required to file Schedule B, enter dividend income of \$1,500 or less (from U.S. Form 1040 or 1040A, line 9) in line 24.

25 Total Taxable 5.3% Income

Add line 23 and line 24.

Tax on 5.3% Income

26 5.3% Tax

Based upon the amount in line 25, find the proper amount of tax from the table at the back of this booklet. Enter the tax in line 26. If line 25 is more than \$24,000, multiply the amount in line 25 by .053 and enter the result in line 26. You must use the tax table if line 25 is \$24,000 or less.

Note: Recent legislation provides that the personal income tax forms must provide an election to voluntarily pay tax at a rate of 5.85% on taxable income which would otherwise be taxed at a rate of 5.3%. The election to pay tax at the rate of 5.85% does not apply to items of income taxed at 12% (short-term capital gains and gains on collectibles). If choosing the optional 5.85% tax rate, multiply line 26 and Schedule D, line 23G by .0585 and fill in the oval.

12% Income and Tax

27 12% Income from Certain Capital Gains

Enter in line 27a the amount from Schedule B, line 39. Multiply this amount by .12 (12%) and enter the tax in line 27. Be sure to enclose Massachusetts Schedule B. To determine if you need to file Schedule B, refer to the Schedule B instructions beginning on page 37 of this booklet.

28 Schedule D (Long-Term Capital Gains and Losses Excluding Collectibles)

Enter in line 28 the amount from Schedule D, page 4, line 24, **but not less than "0."** Be sure to enclose all four pages of Massachusetts Schedule D. To determine if you need to file Schedule D refer to the Schedule D instructions beginning on page 43 of this booklet.

Schedule B, Line 36 and Schedule D, Part 1, Line 21 and Schedule D, Part 2, Line 20 Worksheet — Exemptions from Interest and Dividend Income, 12% Income and Long-Term Capital Gain Income (Only if Single, Head of Household, or Married Filing Jointly)

If your total exemptions in line 22 are more than the amount of your 5.3% income after deductions in line 21, the excess may be applied against all your interest and dividend income and income taxed at 12%. Any remaining excess amount may then be applied against all your long-term capital gain income. (If you are the beneficiary of a Massachusetts trust or estate, see the instructions for line 23.) Complete the following worksheet only if line 21 is less than line 22 to determine if you qualify for the excess exemption. Enter all losses as "0."

1. Enter amount from Schedule B, line 35. Not less than "0"
2. Enter amount from Form 1-NR/PY, line 22
3. Enter amount from Form 1-NR/PY, line 21
4. Subtract line 3 from line 2. If "0" or less, you do not qualify for this exemption. Omit remainder of worksheet
5. Excess exemptions applied against interest and dividend income and 12% income. If line 1 is larger than line 4, enter line 4 here and in Schedule B, line 36 and omit remainder of worksheet. If line 4 is equal to or larger than line 1, enter line 1 here and in Schedule B, line 36. Complete lines 6 through 8.
6. Subtract line 5 from line 4. If "0" you have no remaining excess exemptions. Omit remainder of worksheet
7. Enter Schedule D, Part 1, line 20, column A. Not less than "0"
8. Excess exemptions applied against long-term capital gain income taxed at 5%. If line 7 is larger than line 6, enter line 6 here and in Schedule D, Part 1, line 21, column A and omit remainder of worksheet. If line 6 is equal to or larger than line 7, enter line 7 here and in Schedule D, Part 1, line 21, column A. Complete lines 9 through 11.
9. Subtract line 8 from line 6. If "0," you have no remaining excess exemptions. Omit remainder of worksheet
10. Enter Schedule D, Part 1, line 20, column B. Not less than "0"
11. Excess exemptions applied against long-term capital gain income taxed at 4%. If line 10 is larger than line 9, enter line 9 here and in Schedule D, Part 1, line 21, column B and omit remainder of worksheet. If line 9 is equal to or larger than line 10, enter line 10 here and in Schedule D, Part 1, line 21, column B. Complete lines 12 through 14

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- 12.** Subtract line 11 from line 9. If "0," you have no remaining excess exemptions. Omit remainder of worksheet
- 13.** Enter Schedule D, Part 1, line 20, column C (from page 2). Not less than "0".
- 14.** Excess exemptions applied against long-term capital gain income taxed at 3%. If line 13 is larger than line 12, enter line 12 here and in Schedule D, Part 1, line 21 column C (on page 2) and omit remainder of worksheet. If line 12 is equal to or larger than line 13, enter line 13 here and in Schedule D, Part 1, line 21, column C (on page 2). Complete lines 15 through 17.
- 15.** Subtract line 14 from line 12. If "0," you have no remaining excess exemptions. Omit remainder of worksheet
- 16.** Enter Schedule D, Part 1, line 20, column D (from page 2). Not less than "0".
- 17.** Excess exemptions applied against long-term capital gain income taxed at 2%. If line 16 is larger than line 15, enter line 15 here and in Schedule D, Part 1, line 21, column D (on page 2) and omit remainder of worksheet. If line 15 is equal to or larger than line 16, enter line 16 here and in Schedule D, Part 1, line 21, column D (on page 2). Complete lines 18 through 20.
- 18.** Subtract line 17 from line 15. If "0," you have no remaining excess exemptions. Omit remainder of worksheet
- 19.** Enter Schedule D, Part 1, line 20, column E (from page 3). Not less than "0".
- 20.** Excess exemptions applied against long-term capital gain income taxed at 1%. If line 19 is larger than line 18, enter line 18 here and in Schedule D, Part 1, line 21, column E (on page 3) and omit remainder of worksheet. If line 18 is equal to or larger than line 19, enter line 19 here and in Schedule D, Part 1, line 21, column E (on page 3). Complete lines 21 through 23.
- 21.** Subtract line 20 from line 18. If "0," you have no remaining excess exemptions. Omit remainder of worksheet
- 22.** Enter Schedule D, Part 1, line 20, column F (from page 3). Not less than "0".
- 23.** Excess exemptions applied against long-term capital gain income taxed at 0%. If line 22 is larger than line 21, enter line 21 here and in Schedule D, Part 1, line 21, column F (on page 3) and omit remainder of worksheet. If line 21 is equal to or larger than line 22, enter line 22 here and in Schedule D, Part 1, line 21, column F (on page 3). Complete lines 24 through 26.
- 24.** Subtract line 23 from line 21. If "0," you have no remaining excess exemptions. Omit remainder of worksheet
- 25.** Enter Schedule D, Part 2, line 19 (from page 4). Not less than "0".
- 26.** Excess exemptions applied against long-term capital gain income taxed at 5.3%. If line 25 is larger than line 24, enter line 24 here and in Schedule D, Part 2, line 20 (on page 4). If line 24 is equal to or larger than line 25, enter line 25 here and in Schedule D, Part 2, line 20 (on page 4)

Excess Exemptions

If excess exemptions were used in calculating lines 24, 27 or 28 (see Schedule B, line 36 and/or Schedule D, Part 1, line 21 and/or Part 2, line 20), be sure to fill in the oval in line 28.

29 Credit Recapture Amount

If any Brownfields Credit (BC), Economic Opportunity Area Credit (EOA) or Low-Income Housing Credit (LIH) property is disposed of or ceases to be in qualified use prior to the end of its useful life, the difference between the credit taken and the total credit allowed for actual use must be added back to your tax on Form 1-NR/PY. Complete and enclose Schedule H-2, Credit Recapture. Schedule H-2 is available at www.mass.gov/dor or by calling (617) 887-MDOR.

Massachusetts AGI

College Tuition Deduction

If you paid tuition to a two- or four-year college for yourself or a dependent, you may be entitled to a deduction equal to the amount by which the tuition payment, less any scholarships, grants, or financial aid received, exceed 25% of line 8 of Schedule NTS-L-NR/PY. See Schedule Y, line 7.

No Tax Status — Single, Married Filing a Joint Return or Head of Household Only

If your Massachusetts Adjusted Gross Income (Massachusetts AGI) was \$8,000 or less if single, \$12,700 or less plus \$1,000 per dependent if head of household, or \$14,200 or less plus \$1,000 per dependent if married filing a joint return, you qualify for No Tax Status and are not required to pay any Massachusetts income taxes.

To see if you may qualify for No Tax Status, complete Schedule NTS-L-NR/PY found on the back of page 3 of Form 1-NR/PY. See Schedule NTS-L-NR/PY instructions.

Massachusetts Adjusted Gross Income for No Tax Status and Limited Income Credit

Massachusetts Adjusted Gross Income (Massachusetts AGI) is not the same as taxable income. Massachusetts AGI includes:

- wages, salaries, tips;
- taxable pensions and annuities;
- pension income from another state or political subdivision before any deduction;
- taxable IRA/Keogh and Roth IRA distributions;
- fees and unemployment compensation;
- income or loss from a business or profession;
- income or loss from partnerships, S corporations and trusts;
- rents, royalties and REMIC income;
- alimony and other 5.3% income;

- ▶ interest from Massachusetts banks before exemptions; and
- ▶ other interest, dividends, and capital gains.

30 No Tax Status

If you qualify for No Tax Status, fill in the oval in line 30, enter "0" in line 31 and omit lines 32 through 35. Also, enter "0" in line 36 and complete Form 1-NR/PY. However, if there is an amount entered in line 29, Credit Recapture Amount, enter that amount in line 31 and complete lines 33 through 35.

Note: If married filing separately you do not qualify for No Tax Status or the Limited Income Credit.

32 Limited Income Credit — Single, Married Filing a Joint Return or Head of Household Only

If you do not qualify for No Tax Status, but you are single and your Massachusetts AGI is between \$8,000 and \$14,000, or if you are filing as head of household and your Massachusetts AGI is between \$12,700 and \$22,225 plus \$1,750 per dependent, or if you are married filing a joint return and your Massachusetts AGI is between \$14,200 and \$24,850 plus \$1,750 per dependent, you may qualify for the Limited Income Credit. This credit is an alternative tax calculation that can result in a significant tax reduction for people whose income is close to the No Tax Status threshold. Be sure to complete Schedule NTS-L-NR/PY on the back of page 3 of Form 1-NR/PY to see if you may qualify for this credit.

33 Other Credits (from Schedule Z, Part I)

Lead Paint Credit, Economic Opportunity Area Credit, Full Employment Credit, Septic Credit, Brownfields Credit and Low-Income Housing Credit

"Other credits" include the items listed above and must be included on Schedule Z, Part I. Nonresidents and part-year residents, enter the total from Schedule Z, line 1 on Form 1-NR/PY, line 33. Be sure to enclose Schedule Z with your return. Failure to do so will delay the processing of your return. See Schedule Z instructions on page 34.

34 Credits for Part-Year Residents Only (from Schedule Z, Part II)

Credit for Income Tax Paid to Another State or Jurisdiction and Energy Credit

"Credits for part-year residents only" include the items listed above and must be included on Schedule Z, Part 2. Part-year residents, enter the total from Schedule Z, line 2 on Form 1-NR/PY, line 34. Be sure to enclose Schedule Z with your return. Failure to do so will delay the processing of your return. See Schedule Z instructions on page 34.

37 Voluntary Contributions

You may contribute any amount to the following funds. Remember, these amounts are added to your tax. They increase the amount of your payment or reduce the amount of your refund.

a. Organ Transplant Fund: The Organ Transplant Fund is administered by the Massachusetts Department of Public Health. All contributions received by the Fund assist patients with the costs of medications without which they might lose their transplanted organs. Patients assisted by the Fund are not eligible for other forms of assistance.

b. Endangered Wildlife Conservation: The Natural Heritage and Endangered Species Fund is administered by the Division of Fisheries and Wildlife. Contributions are used to protect and restore rare and endangered wildlife and plants, and their habitats. This fund has helped restore and conserve in the Commonwealth populations of the Bald Eagle, Hessel's Hairstreak Butterfly, the Redbelly Turtle and the Plymouth Gentian.

c. Massachusetts AIDS Fund: The Massachusetts AIDS Fund is administered by the Massachusetts Department of Public Health. Contributions are used for research, experimental treatment and education related to Acquired Immune Deficiency Syndrome (AIDS). Massachusetts residents living with AIDS receive experimental treatment through clinical trials which are wholly supported with this Fund. The Fund also educates people with AIDS about treatment options and how to gain access to medication and experimental treatment.

d. Massachusetts United States Olympic Fund: Contributions to this fund are used to assist Massachusetts residents in paying all or part of any costs associated with the development, maintenance and operation of the United States Olympic Team participating in the Olympics and the United States Paralympic Team participating in the Paralympics.

Add items a, b, c, and d and enter the total in line 37.

38 Massachusetts Use Tax Due On Out-of-State Purchases Made in 2002 (Part-Year Residents Only)

A 5% Massachusetts use tax is due on your taxable purchases, made while a Massachusetts resident, from out-of-state businesses of tangible personal property purchased for use in Massachusetts on which you did not pay Massachusetts sales or use tax. The use tax does not apply to out-of-state purchases that are exempt from the sales tax (for example, clothing that costs \$175 or less). Examples of taxable items include computers, furniture, jewelry, cameras, appliances, and any other item that is not exempt. Generally, anyone who pays a sales or use tax to another state or territory of the United States on tangible personal property to be used in Massachusetts is entitled to a credit against the Massachusetts use tax, up to 5%. This credit is allowed for sales or use tax paid to another state only if that state

has a corresponding credit similar to the Massachusetts credit. See TIR 03-1 for more information.

Prepare and retain with your records a list of your out-of-state purchases in 2002 that are subject to the Massachusetts use tax. Complete the worksheet below to calculate your use tax. For more information about use tax, visit DOR's website at www.state.ma.us/dor.

Form 1-NR/PY, Line 38 Worksheet—Use Tax Due on Out-of-State Purchases (Part-Year Residents Only)

Line 1. Total of purchases in 2002, made while a Massachusetts resident, subject to Massachusetts use tax.

Line 2. Use tax. Multiply line 1 by .05 (5%).

Line 3. Credit for sales/use tax paid to other states or jurisdictions. Add the amount of any sales/use tax paid to another state or jurisdiction, or 5% of the sales price, whichever is less, on each purchase reported in line 1.

Line 4. Total amount due. Subtract line 3 from line 2. Not less than "0." Enter the result here and on Form 1-NR/PY, line 38.

40 Massachusetts Income Tax Withheld

This represents all income taxes withheld for the Commonwealth of Massachusetts as indicated on your copies of Forms W-2, W-2G and certain 1099s, if applicable. Enter the total of all Massachusetts withholdings in line 40. Attach, with a single staple, state copies to your return; otherwise, your claim of amounts withheld will not be allowed. If you have lost any state copy, ask the payer for a duplicate. Copies of 1099s need only be attached if they show an amount for Massachusetts tax withheld.

41 2001 Overpayment Applied to Your 2002 Estimated Tax

Include the exact amount of any 2001 overpayment you applied to your 2002 estimated taxes. This amount can be found on your 2001 Massachusetts Form 1-NR/PY, line 47 or Form 1, line 42. Do not include any 2001 refund in this line.

42 2002 Massachusetts Estimated Tax Payments

If you paid Massachusetts estimated income taxes for 2002, enter in line 42 the total of all Massachusetts estimated tax payments, but do not include the amount entered in line 41. Be sure to include any last quarter (of 2002) payment made on or before January 15, 2003.

Every taxpayer (whether a resident or nonresident) who expects to pay more than \$200 in Massachusetts income taxes on income which is not covered by Massachusetts withholding must pay Massachusetts estimated taxes using Massachusetts Form 1-ES, Estimated Income Tax Vouchers. These forms are available by visiting www.mass.gov/dor.

Income which is not subject to withholding includes:

- salaries or wages earned in Massachusetts where the employer is not subject to Massachusetts withholding;
- unemployment compensation (if you did not elect voluntary Massachusetts withholding);
- taxable REMIC income;
- dividends and interest, including interest from Massachusetts banks;
- gains from capital assets;
- income from an individual trade, business, profession, partnership or S corporation;
- income from any estate or trust not taxed directly;
- lottery or gambling winnings;
- certain pensions;
- rental income and royalty income;
- alimony received (**part-year** residents only);
- illegal income; and
- any other income received taxable in Massachusetts from which Massachusetts tax will **not** be withheld.

Generally, the first payment voucher, Massachusetts Form 1-ES, must be filed on or before April 15 of the taxable year. The estimated tax may be paid in full with the first payment voucher or in four installments on or before April 15, June 15, September 15 of the current taxable year and January 15 of the following year.

If you wish to verify estimated tax payments that have already been made, check the Estimated Tax Payment History Application at www.mass.gov/dor. You will need to know the PIN that appeared on the back of your Form 1-NR/PY booklet or the amount of last year's refund or balance due to access your account.

You may request your employer to withhold additional amounts from your salary on Form M-4, Massachusetts Employee's Withholding Exemption Certificate to cover the taxes on other income so that you do not have to file and pay estimated taxes.

If 80% of the tax is not paid throughout the year through withholding and/or estimated payments, a penalty may be imposed.

43 Earned Income Credit

Taxpayers who qualify for and claim the federal earned income credit are allowed a refundable credit equal to 15% of the federal amount. Enter in line 43a the federal earned income credit amount from your U.S. Form 1040, line 64, 1040A, line 41; 1040EZ, line 8; or U.S. Telefile Tax Record, item L. Multiply this amount by .15 (15%) and enter the result in the line provided.

Nonresidents, multiply this amount by line 14g; **part-year residents** multiply this amount by line 2. Enter the result in line 43. If you choose to have the IRS compute your federal earned income credit, wait until the IRS notifies you of that amount before making an entry in line 43. If you have not received your earned income credit amount as computed by the IRS by April

15, 2003, you may file Massachusetts Form M-4868, Application for Automatic Six-Month Extension of Time to File Massachusetts Income Tax Return. See page 3 for information about filing your extension by telephone or via the Web.

44 Senior Circuit Breaker Credit (Part-Year Residents Only)

Certain senior citizens in Massachusetts may be eligible to claim a refundable credit on their state income taxes for the real estate taxes paid on the Massachusetts residential property they own or rent and which they occupy as their principal residence. The maximum credit allowed is \$790 for the tax year beginning January 1, 2002. If the credit due the taxpayer exceeds the amount of the total income tax payable for the year by the taxpayer, the excess amount of the credit will be refunded to the taxpayer without interest. To determine if you qualify for this credit, refer to Schedule CB, Senior Circuit Breaker Credit and instructions. Schedule CB is available on DOR's website at www.mass.gov/dor or by calling (617) 887-MDOR, or toll-free in Massachusetts 1-800-392-6089.

If you qualify for this credit and you are a homeowner, enter the amount from Schedule CB, Circuit Breaker Credit, line 20; if you are a renter, enter the amount from line 24. Be sure to complete and enclose Schedule CB with your return.

45 Payments Made with Extension

If you filed an Application for Automatic Six-Month Extension of Time to File Massachusetts Income Tax Return, Massachusetts Form M-4868, for 2002 on or before April 15, 2003, enter in line 44 the amount you paid with Form M-4868. Enclose a copy of Massachusetts Form M-4868 with your return. If you are applying for an extension and either owe no tax or choose to pay your tax due by Mastercard, Visa, Discover or Novus brand card, you may file your extension by touch-tone telephone or via the Web (see page 3 for more information) or if you owe no tax, you may substitute U.S. Form 4868 for the Massachusetts extension form. Be sure to indicate on the form that this extension is for Massachusetts purposes.

Refund Amount

47 Overpayment

If line 39 is smaller than line 46, subtract line 39 from line 46 and enter the amount in line 47. This is the amount of your overpayment. If line 39 is larger than line 46, skip to line 50.

48 Amount of Overpayment You Want Applied to Your 2003 Massachusetts Estimated Taxes

Enter the amount of your 2002 overpayment you wish to apply to your 2003 Massachusetts estimated taxes. Once an election is made to apply your overpayment to your 2003 estimated tax,

it cannot be refunded later or applied to any additional tax you may owe for 2002. The amount entered in this line can only be claimed as a credit on your 2003 Massachusetts return.

49 Refund Amount

Subtract line 48 from line 47. Enter the result in line 49. This is the amount of your refund.

Direct Deposit

You may elect to have your refund deposited directly into your savings or checking account. Check with your financial institution to make sure that it accepts direct deposit and verify the routing transit number (RTN) of the issuing financial institution. If we are unable to honor your request for a direct deposit, a paper check will be sent to you.

**JANE TAXPAYER
JOHN TAXPAYER**
123 Main Street
Anyplace, MA 02000

1234
15-0000/0000

Date _____

PAY TO THE ORDER OF _____ \$ _____

DOLLARS _____

YOUR BANK
Anyplace, MA 02000

For _____

Routing number: 020250029
Account number: 2020201186

The routing number of your financial institution is nine digits and begins with 01 through 12 or 21 through 32. The account number can be up to 17 characters (both numbers and letters). Omit hyphens, spaces and special symbols. Enter the number from left to right and leave any unused boxes blank. You **must** enter the routing number and the account number in the spaces provided in line 49 if you are requesting direct deposit. Failure to do so will result in your request for direct deposit being denied. See sample check above for location of this information.

Note: Only one direct deposit is allowed per account number.

Tax Due

50 Tax Due

If line 39 is larger than line 46, subtract line 46 from line 39, and enter the result in line 50. This is the amount of tax you owe with your return. Pay in full with your return. Make your check or money order payable to Commonwealth of Massachusetts and write your Social Security number on the front of your check or money order in the lower left corner. Complete and remove Form PV, Massachusetts Income Tax Payment Voucher, attached to the back of the envelope found in this booklet. Staple the check to the front of Form PV and enclose Form PV with your return. Be sure to use the light blue mailing label when mailing Form 1-NR/PY with Form PV.

Failure to file or failure to pay the proper amount of tax when due will result in an increasing amount of interest and penalties. It is advantageous to file when your return is due even if you are unable to make full payment.

If you owe any interest, penalty or addition for the underpayment of estimated taxes, add those amounts to the tax you owe and enter the total amount in line 50.

What Are the Interest and Penalties?

Interest: If you fail to pay the tax when due, interest will be charged. For further information, see TIR 92-6 or call the Customer Service Bureau at (617) 887-MDOR or toll-free in Massachusetts at 1-800-392-6089.

Penalty for Late Payment: The penalty for late payment is $\frac{1}{2}\%$ of the tax due per month (or fraction thereof), up to a maximum of 25%.

Penalty for Failure to File: The penalty for failure to file a tax return by the due date is 1% of the tax due per month (or fraction thereof), up to a maximum of 25%. If you were required to file a tax return for income received in any prior year and you did not file, you must file for that prior year.

Penalty for Protested ("Bad") Check: If your check is not honored by your bank because of insufficient funds or any other reason, a penalty may be added equal to 2% of the amount of the check or \$10, whichever is greater, but no more than the amount of the check.

Addition for Underpayment of Estimated Taxes: You will generally be subject to this addition to tax if you did not have withholding and/or estimated tax payments equal to 80% of the total tax liability required to be paid and your 2002 tax due after credits and withholding is greater than \$200. If you failed to meet this requirement, you must complete and attach Massachusetts Form M-2210 to calculate the amount you must add to line 50. The 80% requirement is reduced to 66 $\frac{2}{3}\%$ for individuals who receive two-thirds of their income from fishing or farming.

Most taxpayers who qualify for an exception had either a tax due of \$200 or less or withholding and/or estimated payments equal to their tax liability for the previous year. If you qualify for an exception, fill in the oval marked "EX" under line 50 on Form 1-NR/PY and enclose Massachusetts Form M-2210. You do not have to complete Form M-2210 if the balance due with your return is \$200 or less. Form M-2210 is available by visiting www.mass.gov/dor or at any Massachusetts Department of Revenue location.

Penalty for Failure to Report Federal Changes: If the U.S. Internal Revenue Service changes your income for any prior year (generally through audit), file Massachusetts Form CA-6, Application for Abatement/Amended Return together with any required schedules or additional payments within one year of the final federal determination to avoid this penalty. This penalty is

equal to the smaller of 10% of the additional tax due, or \$100. If the change indicates a refund, you must file Massachusetts Form CA-6 within one year, including acceptance of an amended federal return by the Internal Revenue Service. Form CA-6 is available by visiting www.mass.gov/dor.

Sign Here

Now that you have completed Form 1-NR/PY, sign your name. Your spouse must also sign if this is a joint return. Please note that the signature area is at the bottom of page 1 of Form 1-NR/PY. Write the date you signed the return.

Attach to your Form 1-NR/PY, with a single staple, all state copies of your Forms W-2, W-2G and any Forms 1099 which included Massachusetts withholding. If making a payment, be sure to staple your check or money order to the front of Form PV and enclose Form PV with your Form 1-NR/PY. Form PV is attached to the back of the envelope found in this booklet. Be sure to use the light blue mailing label when mailing your Form 1-NR/PY with the Form PV. Make your check or money order payable to Commonwealth of Massachusetts, and be sure to sign the check and write your Social Security number on it. Be sure to include all three pages of Form 1-NR/PY. Also, enclose all required Massachusetts forms and schedules. Do not staple your forms together.

Paid Preparer Must Sign Your Return

Generally, anyone you pay to prepare your return must sign it by hand in the space provided. Signature stamps or labels cannot be used. The preparer must give you a copy of the return for your records. Someone who prepares your return but does not charge you should not sign your return.

Paid Preparer Authorization

If you want to allow the Massachusetts Department of Revenue (DOR) to discuss your 2002 tax return with the paid preparer who signed it, fill in the "Yes" oval in the signature area of the return. This authorization applies only to the individual whose signature appears in the "Paid Preparer" section of your return. It does not apply to the firm, if any, shown in that section.

If you fill in the "Yes" oval, you, and your spouse if filing a joint return, are authorizing DOR to call the paid preparer to answer any questions that may arise during the processing of your return. You are also authorizing the paid preparer to:

- give DOR any information that is missing from your return;
- call DOR for information about the processing of your return or the status of your refund or payment(s); and
- respond to certain DOR notices that you have shared with the preparer about math errors, offsets and return preparation. The notices will not be sent to the preparer.

You are not authorizing the paid preparer to receive any refund check, bind you to anything (including any additional tax liability), or otherwise represent you before DOR. If you want to expand the paid preparer's authorization, see Form M-2848, Power of Attorney and Declaration of Representative.

The authorization cannot be revoked. However, the authorization will automatically end no later than the due date (without regard to extensions) for filing your 2003 tax return. This is April 15, 2004 for most people.

Mailing

If you are expecting a refund or if you have no tax due, use the white mailing label on the back of the envelope that came with this booklet. If you do not have one, mail Form 1-NR/PY to:

Massachusetts Department of Revenue
PO Box 7000
Boston, MA 02204

If you have a tax due, use the light blue mailing label on the back of the envelope that came with this booklet. If you do not have one, mail Form 1-NR/PY to:

Massachusetts Department of Revenue
PO Box 7003
Boston, MA 02204

Note: Schedule lines without specific instructions are considered to be self-explanatory. Be sure to list on each schedule the name and Social Security number that appears first on Form 1-NR/PY. Do not cut or separate schedules.

Schedule NTS-L-NR/PY

Massachusetts Adjusted Gross Income for No Tax Status

Massachusetts Adjusted Gross Income (Massachusetts AGI) is not the same as taxable income. Massachusetts AGI includes all:

- ▶ wages, salaries, tips;
- ▶ taxable pensions and annuities;
- ▶ pension income from another state or jurisdiction before any deductions;
- ▶ taxable IRA/Keogh and Roth IRA distributions;
- ▶ fees and unemployment compensation;
- ▶ income or loss from a business or profession;
- ▶ income or loss from partnerships, S corporations and trusts;
- ▶ rents, royalties and REMIC income;
- ▶ alimony and other 5.3% income;
- ▶ interest from Massachusetts banks before exemption; and
- ▶ interest, dividends, and capital gains.

▶ The No Tax Status provision applies if your Massachusetts AGI on Schedule NTS-L-NR/PY (line 8) is \$8,000 or less if single; \$12,700 or less plus \$1,000 per dependent if head of household,

or \$14,200 or less plus \$1,000 per dependent if married filing a joint return.

Note: If married, you must file a joint return in order to qualify for No Tax Status. For purposes of computing No Tax Status all losses must be entered as "0."

7 Income Not Taxable by Massachusetts

Nonresidents, enter the amount from Form 1-NR/PY, line 14e. Part-year residents, enter income earned while a nonresident.

8 Massachusetts Adjusted Gross Income

If you paid tuition to a two- or four-year college for yourself or a dependent, you may be entitled to a deduction equal to the amount by which the tuition payments, less any scholarships, grants or financial aid received, exceed 25% of line 8. See Schedule Y, line 7 worksheet in instructions.

Add lines 3 through 7. If you are single and the total in line 8 is \$8,000 or less, you qualify for No Tax Status. Fill in the oval in Form 1-NR/PY, line 30, enter "0" in line 31 and omit lines 32 through 35. Also, enter "0" on line 36 and continue on Form 1-NR/PY. If you are single but do not qualify for No Tax Status and your total in line 8 is \$14,000 or less, go to line 11 to see if you qualify for the Limited Income Credit. If married filing jointly or head of household, go to line 9.

9 No Tax Status for Married Filing Jointly or Head of Household

If married and filing a joint return, multiply the number of dependents (from Form 1-NR/PY, line 4b) by \$1,000 and add \$14,200 to that amount. If head of household, multiply the number of dependents (from Form 1-NR/PY, line 4b) by \$1,000 and add \$12,700 to that amount. Enter the result here. If line 8 is less than or equal to line 9, you qualify for No Tax Status. Fill in the oval in Form 1-NR/PY, line 30, enter "0" in line 31 and omit lines 32 through 35. Also, enter "0" on line 36 and continue on Form 1-NR/PY.

10 Limited Income Credit Threshold

If you do not qualify for No Tax Status and you are married and filing a joint return, multiply the number of dependents (from Form 1-NR/PY, line 4b) by \$1,750 and add \$24,850 to that amount. If head of household, multiply the number of dependents (from Form 1-NR/PY line 4b) by \$1,750 and add \$22,225 to that amount. Enter the result here. If line 8 is less than or equal to line 10, you may qualify for the Limited Income Credit. Go to line 11.

11 No Tax Status Threshold

Enter \$8,000 if single. If married and filing a joint return or head of household, enter the amount from line 9.

15 Limited Income Credit

If line 13 is smaller than line 14, you are not eligible for this credit. If line 13 is larger than line 14, subtract line 14 from line 13, and enter the result here and in line 32 on Form 1-NR/PY.

Schedule F

Credit for Income Taxes Paid to Other Jurisdictions (for Part-Year Residents Only)

Income Tax Paid to Another State: If all or part of the income reported on this return is subject to taxation in another state or specified jurisdiction and you have filed a return and paid taxes in the other state or jurisdiction, complete Schedule F to calculate the credit. Do not include taxes paid to the U.S. government. (This credit does not apply to city or local taxes.) You are allowed to claim a credit for taxes paid to the following jurisdictions: (a) other states in the United States; (b) any territory or dependency of the United States (including Puerto Rico, the Virgin Islands, Guam, the District of Columbia); or (c) the Dominion of Canada or any of its provinces (less any U.S. credit amount allowable from U.S. Form 1116).

Note: Canada is the only foreign country for which you may claim a tax credit for income tax paid to another state or jurisdiction on this schedule.

The total credit which you calculate on this schedule is the smaller of the amount of taxes due to other jurisdictions (net of certain adjustments) or the portion of your Mass. tax due on your gross income that is taxed in such other jurisdictions.

Credit is not given for a property tax due to another jurisdiction on account of capital stock or property. This does not refer to a tax on gain or income from the sale of capital stock or property, as included on Schedule B or D. Credit is also not given for any interest and penalties paid on a tax due to another jurisdiction.

You must complete separate schedules if you had 5.3% and interest income (other than interest from Massachusetts banks), dividends or capital gain income taxed by another jurisdiction. If you use this schedule to calculate a credit for interest income (other than interest from Massachusetts banks), dividends or capital gain income, substitute interest income (other than interest from Massachusetts banks), dividends or capital gain income for 5.3% income in line 1. You must also substitute Schedule B, line 7 (interest and dividend income) and Schedule B, line 13 (taxable 12% capital gains) or Schedule D, Part 1, line 12, columns A, B, C, D, E and F and Part 2, line 11 (gross long-term capital gains and losses), but not less than "0," for Form 1-NR/PY, line 12 in line 2 of the schedule, and the total of Form 1-NR/PY, line 24 multiplied by .053 (tax on interest and dividend income) and Form 1-NR/PY, line 27 (12% tax) or line 28 (tax on long-term capital gains) for Form 1-NR/PY, line 23 in line 4 of the schedule.

► When using this schedule to calculate credit for interest income (other than interest from Massachusetts banks), dividends or capital gain income, enter in line 1 such income taxed in another jurisdiction calculated as if it was earned in Massachusetts.

► If you choose to pay the optional 5.85% tax rate, substitute .0585 for .053 in line 4 of the schedule.

1 Total 5.3% Income Taxed by Other Jurisdictions

Enter the total 5.3% income on which you paid taxes to another jurisdiction.

4 Massachusetts Tax on 5.3% Income

Multiply Form 1-NR/PY, line 23 by .053, less any Limited Income Credit from Form 1-NR/PY, line 32.

6 Income Tax Paid to Other Jurisdictions

Enter the total tax paid to other jurisdictions on income also reported on this return. The credit is limited to the amount of tax paid. If the tax was paid to Canada, the amount reported in this line must be reduced by the amount claimed as a foreign tax credit on U.S. Form 1040, line 45.

7 Allowable Credit

Enter the smaller of lines 5 or 6 here and on Schedule Z, line 2, and fill in the appropriate oval on Schedule Z, line 2. Be sure to enter the two-letter state or jurisdictional postal code for each state or jurisdiction for which you are taking the credit on Schedule Z, line 2. Visit the United State Postal Service's website at www.usps.com and click on "Service Guides" for a list of those codes.

Schedule X

Other Income

Be sure to enclose with Form 1-NR/PY.

1 Alimony Received (Part-Year Residents Only)

If you received alimony payments, you must report them as income in line 1 of Schedule X. Report the portion of all periodic payments of alimony or separate maintenance received under a court judgment or decree, or for excess alimony amounts recaptured, as reported on U.S. Form 1040, line 11, received while you were a Massachusetts resident. If you made alimony payments, you will be allowed to deduct these amounts on Form 1-NR/PY, line 19.

2 Taxable IRA/Keogh and Roth IRA Distributions (Part-Year Residents Only)

Complete the Schedule X, line 2 following worksheet to calculate the taxable portion of any amount you received as an Individual Retirement Account (IRA), Keogh or Roth IRA distribution while a resident of Massachusetts, whether derived from sources inside or outside of Massachusetts. Since Massachusetts does not allow a deduction for amounts originally contributed to an IRA or Keogh, the distributions are not taxable until the full amount of your contributions which were previously subject to Massachusetts taxes are recovered.

► Contributions made to Keogh accounts prior to 1975 were deductible when made. Therefore, no deduction may be taken from a Keogh distribution for amounts contributed before 1975.

Massachusetts generally adopts the federal conversion rules for partial or complete rollovers from existing IRAs to Roth IRAs. Generally, the rollover amount is treated as a distribution and included in federal gross income to the extent it is attributable to investment growth or previously deducted contributions. See TIR 98-8, *Massachusetts 1998 Reducing Income Taxes Act*, for further details.

Schedule X, Line 2 Worksheet — Taxable IRA/Keogh Plan and Roth IRA Distributions

Complete this worksheet to report conventional IRA/Keogh distributions or Roth IRA distributions.

Line 1. Total IRA/Keogh plan distributions, Roth IRA distributions received during 2002

Line 2. Total contributions previously taxed by Massachusetts

Line 3. Total distributions received in previous years

Line 4. Subtract line 3 from line 2. If line 3 is larger than line 2, enter "0"

Line 5. Taxable IRA/Keogh distributions. Subtract line 4 from line 1 and enter the result here. Not less than "0"

Note: You must complete separate worksheets if married filing a joint return and both you and your spouse received IRA/Keogh Plan and/or Roth IRA distributions.

3 Massachusetts State Lottery Winnings

Enter in Schedule X, line 3 all winnings from the Massachusetts state lottery. Do not enter less than "0." You may only deduct the price of your winning ticket. Lottery losses are not deductible under Massachusetts law. Lottery losses claimed as itemized deductions on U.S. Form 1040, Schedule A are not allowed on your Massachusetts return.

4 Other Gambling Winnings

Enter in Schedule X, line 4 all gambling winnings from casinos, raffles, races, beano or other events of chance held in Mass-

achusetts (part-year residents, whether held inside or outside of Massachusetts). Do not enter less than "0." You may only deduct the price of the winning ticket. Gambling losses are not deductible under Massachusetts law. Gambling losses claimed as itemized deductions on U.S. Form 1040, Schedule A are not allowed on your Massachusetts return.

5 Fees and Other 5.3% Income

"Other 5.3% income" includes the following items. Enter the amounts and sources of each item. **Do not enter less than "0."** Enclose additional statements if more space is needed.

► All fee income, such as payments for jury duty, election worker payments, director's fees, compensation received as executor or administrator of an estate, and commission income or tips not reported in line 5 of Form 1-NR/PY is taxable. Also, report all bartering income not reported on Schedule C (the fair market value of goods or services received in payment for your services).

► All prizes and awards won by a nonresident in a quiz program, drawing, beauty contest, etc. held in Massachusetts (part-year residents, whether held inside or outside of Massachusetts) are taxable at fair market value. Awards and bonuses received from your employer for performance of services in Massachusetts (part-year residents, whether received from sources inside or outside of Massachusetts) are also taxable.

► Other 5.3% income from Massachusetts sources or received while a part-year resident, reported on U.S. Form 1040, line 21, and not reported elsewhere in "5.3% Income" section on Massachusetts Form 1-NR/PY, must be reported in line 5 of Schedule X.

► Pre-1996 installment sales classified as ordinary income for Massachusetts purposes (from Massachusetts Schedule D, Part 1, line 9 or Part 2, line 8) are taxed as 5.3% income and must be reported on Schedule X, line 5.

► Embezzled or other income from illegal activities from Massachusetts sources or received while a part-year resident is taxable.

The following items should **not** be reported on your Massachusetts return:

► Any "net operating loss" reported as a negative amount on U.S. Form 1040, line 21 cannot be entered on Schedule X. A net operating loss from a business or profession cannot be carried forward or backward to offset individual income in any other year under Massachusetts law.

► Refunds of U.S. and Massachusetts income taxes are not considered income under Massachusetts law. If you received interest on refunds, report such interest on Massachusetts Schedule B.

6 Total

Add lines 1 through 5 and enter the total in line 6 of Schedule X and on line 11 of Form 1-NR/PY. Be sure to enclose Schedule X with your return. Failure to do so will delay the processing of your return.

Schedule Y

Other Deductions

Be sure to enclose with Form 1-NR/PY.

1 Allowable Employee Business Expenses

Generally, reimbursed employee business expenses are not included in your wages or salary and therefore are not allowed as deductions. However, there are unreimbursed and certain reimbursed expenses for which you are allowed a deduction. Complete the following worksheet in order to calculate your Massachusetts employee business expense deduction. The expenses must relate to income reported in lines 5 or 11 on Form 1-NR/PY.

Employees may deduct the following:

- ▶ unreimbursed travel and transportation expenses including lodging and meals away from home incurred by any employee; and

- ▶ all federally deductible unreimbursed employee business expenses, if the employee is a salesperson who solicits business for an employer away from the employer's place of business.

Unreimbursed expenses are only deductible if all of the following conditions are met:

- ▶ you itemize deductions;
- ▶ if you filed a joint U.S. return, you must file a joint Massachusetts return; and

- ▶ your unreimbursed business expenses taken together with the other miscellaneous itemized deductions reported on U.S. Form 1040, Schedule A, lines 20, 21 and 22 exceed 2% of your federal adjusted gross income reported on U.S. Form 1040, Schedule A, line 25. See the following Schedule Y, line 1 worksheet.

If you are a qualified performing artist or a fee-basis state or local government official, do not complete the worksheet. Enter on Schedule Y, line 5 your federally deductible business expenses included on U.S. Form 1040, line 34 and fill in the appropriate oval in Schedule Y, line 5. On the dotted line next to line 5, be sure to indicate the type of deduction being taken, as identified on U.S. Form 1040, line 34. For example, qualified performing arts-related expenses should be identified as "QPA" and employee business expenses of fee-basis state or local government officials should be identified as "FBO." Enclose U.S. Form 2106 or 2106-EZ with your return.

Schedule Y, Line 1 — Massachusetts Employee Business Expense Deduction Worksheet

1. Enter the amount from U.S. Form 2106, line 10, or 2106-EZ, line 6
2. If you are an employee other than an outside salesperson, add the amount of unreimbursed expenses included in U.S. Form 2106 or 2106-EZ, line 4 to the amount of unreimbursed meals and entertainment expenses included in U.S. Form 2106 or 2106-EZ, line 5, **except** for meals incurred while away from home. Enter the result here
3. If you are an individual with a disability, enter the amount of impairment-related expenses included in line 1 and claimed on line 27 of U.S. Schedule A
4. Subtract lines 2 and 3 from line 1, and enter the result here
5. Enter the amount from U.S. Schedule A, line 26
6. Enter the smaller amount of line 4 or 5 here and on Schedule Y, line 1

2 Penalty on Early Savings Withdrawal

If you were charged a penalty because of early withdrawal of savings, and interest on the savings that such a penalty relates to is reported in line 7a or 24 of this return or on a prior year Massachusetts return, you may deduct the penalty. This deduction is the same as the amount allowable on U.S. Form 1040, line 32. Enter this amount in line 2 of Schedule Y.

3 Alimony Paid

This deduction includes only amounts paid by you to your former spouse during 2002 for alimony or separate maintenance under court decree, or for excess alimony amounts recaptured. Nonresidents, multiply the amount of alimony paid on your U.S. Form 1040, line 33a, by Form 1-NR/PY, line 14g to determine the amount you may claim against Massachusetts income. Enter the result in line 3. Part-year residents, enter the amount of alimony paid while a Massachusetts resident in line 3.

4 Amounts Excludible Under MGL Ch. 41, Sec. 111F or U.S. Tax Treaty Included in Form 1-NR/PY, Line 5.

Massachusetts allows an exclusion from income of amounts received by a firefighter or police officer incapacitated in the line of duty, per MGL Ch. 41, sec. 111F, and an exclusion from income of amounts received by qualifying students exempt under a U.S. tax treaty.

Enter any excludible amount of income received while you were a firefighter or police officer incapacitated in the line of duty in line 4 of Schedule Y that was included in Form 1-NR/PY, line 5, and fill in the appropriate oval.

If you were a qualifying student, enter any excludible amount of income received that was exempt under a U.S. tax treaty in line 4 of Schedule Y that was included in Form 1-NR/PY, line 5, and fill in the appropriate oval.

5 Other Qualified Deductions

You may claim **only** the following deductions for Schedule Y, line 5. If you are entitled to claim any of the deductions in line 5, fill in the appropriate ovals and enter the total amount in line 5.

► **Student Loan Interest Deduction:** Nonresidents, multiply the amount from U.S. Form 1040, line 25 or 1040A, line 18 (not to exceed \$2,500 for tax year 2002) by line 14g and fill in the appropriate oval in line 5 of Schedule Y. Part-year residents, multiply the amount from U.S. Form 1040, line 25 or 1040A, line 18 (not to exceed \$2,500 for tax year 2002) by line 2 and fill in the appropriate oval in line 5 of Schedule Y.

► **Archer Medical Savings Account (MSA) Deduction:** Nonresidents, multiply the amount from U.S. Form 1040, line 27 by line 14g and fill in the appropriate oval in line 5 of Schedule Y. Part-year residents, multiply the amount from U.S. Form 1040, line 27 by line 2 and fill in the appropriate oval in line 5 of Schedule Y.

► **Moving Expenses:** Nonresidents and part-year residents, enter the amount from U.S. Form 1040, line 28 that is related to Massachusetts employment and fill in the appropriate oval in line 5 of Schedule Y.

► **Self-Employed Health Insurance Deduction:** Due to differences between the Internal Revenue Code as amended and in effect as of January 1, 1998 and the current year, **only 60%** of the qualified insurance payments are deductible for Massachusetts purposes for the 2002 tax year. As a result, you must complete a pro forma version of the U.S. Self-Employed Health Insurance Deduction Worksheet (U.S. Form 1040 instructions) using .60 (60%) in line 2 of the worksheet. If you used the worksheet in IRS Pub. 535, you must complete a pro forma version using .60 (60%) in line 4 of the worksheet. Enter the result here and fill in the appropriate oval in line 5 of Schedule Y. Nonresidents and part-year residents, this amount must be related to Massachusetts employment.

► **Certain Qualified Deductions from U.S. Form 1040:** **Do not include** any amounts reported on U.S. Form 1040, lines 23 through 33a that are included in Form 1040, line 34 total. Enter **only** amounts included in U.S. Form 1040, line 34 as an adjustment, **except** amounts contributed to sec. 501(c)(18) pension plans. For Massachusetts purposes, contributions to sec. 501(c)(18) pension plans are not deductible. Nonresidents, if you are claiming a deduction for clean-fuel vehicles, multiply that amount by Form 1-NR/PY, line 14g; part-year residents, if you are claiming a deduction for clean-fuel vehicles, multiply that amount by Form 1-NR/PY, line 2. The following deductions may be claimed only if they are related to Massachusetts income as included in Form 1-NR/PY, line 12: qualified performing arts-related expenses; jury duty pay given to your employer; reforestation amortization; repayment of supplemental

unemployment benefits under the Trade Act of 1974; employee business expenses of fee-basis state or local government officials; and deductible expenses related to income reported on U.S. Form 1040, line 21 and Massachusetts Schedule X, line 5 from the rental of personal property engaged in for profit. If you are entitled to claim any of these deductions, fill in the appropriate oval in line 5 of Schedule Y. On the dotted line next to line 5, be sure to indicate the type of deduction being taken, as identified on U.S. Form 1040, line 34. Identify qualified performing arts-related expenses as "QPA"; jury duty pay given to your employer as "Jury Pay"; reforestation amortization as "RFST"; repayment of supplemental unemployment benefits under the Trade Act of 1974 as "Sub-Pay TRA"; the deduction for clean-fuel vehicles as "Clean-Fuel"; employee business expenses of fee-basis state or local government officials as "FBO"; and deductible expenses related to income reported on U.S. Form 1040, line 21 and Massachusetts Schedule X, line 5 from the rental of personal property engaged in for profit as "PPR." Fill in the appropriate oval in line 5 of Schedule Y.

6 Deductible Qualified Contributory Pension Income from Another State or Political Subdivision Included in Form 1-NR/PY, Line 6

Massachusetts allows a deduction for contributory pension income received from another state or one of its political subdivisions which does not tax such income from Massachusetts or its political subdivisions. For guidelines to determine which state's pensions are exempt in Massachusetts, refer to Technical Information Release (TIR) 95-9. Enter any deductible amount of such income in line 6 of Schedule Y that was included in Form 1-NR/PY, line 6.

7 College Tuition Deduction

A deduction is allowed for tuition payments paid by you, for yourself or a dependent, to a qualifying two- or four-year college. The deduction is equal to the amount by which the tuition payments, less any scholarships, grants or financial aid received, exceed 25% of Massachusetts adjusted gross income. Complete Schedule NTS-L-NR/PY, found on the back of page 3 of Form 1-NR/PY, and the following Schedule Y, line 7 worksheet to see if you may qualify for this deduction. See Technical Information Release (TIR) 97-13 for more information.

Schedule Y, Line 7 Worksheet —College Tuition Deduction

Line 1. Enter total tuition payments paid by you, for yourself or a dependent, to a qualifying two- or four-year college in 2002

Line 2. Enter amount of scholarships, grants or financial aid received in 2002 for amounts shown in line 1

Line 3. Subtract line 2 from line 1. If "0" or less, you do not qualify for this deduction

Line 4. Enter amount from line 8 of Schedule NTS-L-NR/PY, No Tax Status and Limited Income Credit

Line 5. Multiply line 4 by .25

Line 6. If line 3 is smaller than line 5, you are not eligible for this deduction. Enter "0." If line 3 is larger than line 5, subtract line 5 from line 3 and enter the result here

Line 7. Part-year residents, multiply line 6 by Form 1-NR/PY, line 2. Enter the result here and in line 7 on Schedule Y. Nonresidents, multiply line 6 by Form 1-NR/PY, line 14g. Enter the result here and in line 7 on Schedule Y.

8 Undergraduate Student Loan Interest Deduction

A deduction is allowed for interest paid on a qualified undergraduate student loan. To be eligible for the deduction, the "education debt" must be a loan that is administered by the financial aid office of a two-year or four-year college at which you, or a qualified dependent, were enrolled as an undergraduate student. Additionally, the loan must have been secured through a state student loan program, a federal student loan program, or a commercial lender, and must have been spent solely for the purposes of paying tuition and other expenses directly related to the school enrollment. Only if not claiming the same expenses in line 5 of Schedule Y, Student Loan Interest Deduction.

Nonresidents, multiply the amount of such interest paid by Form 1-NR/PY, line 14g and enter the result in Schedule Y, line 8. **Part-year residents,** multiply the amount of such interest paid by Form 1-NR/PY, line 2 and enter the result in Schedule Y, line 8.

9 Total Other Deductions

Add lines 1 through 8 and enter the total in line 9 of Schedule Y and on line 19 of Form 1-NR/PY. Be sure to enclose Schedule Y with your return. Failure to do so will delay the processing of your return.

Schedule Z

Other Credits

Be sure to enclose with Form 1-NR/PY.

1 Part 1 Credits

► **Lead Paint:** If you incurred expenses for covering or removing lead paint on residential premises in Massachusetts, you may claim a credit for expenses up to \$1,500 for each residential unit. The basic rules are explained on Massachusetts Schedule LP, Credit for Removing or Covering Lead Paint on Residential Premises. If you qualify for the credit, complete Schedule LP and fill in the appropriate oval in Part 1.

► **Economic Opportunity Area Credit:** Massachusetts allows a credit equal to 5% of the cost of qualifying property purchased for business use within an Economic Opportunity Area (EOA). If you qualify for the credit, complete Schedule EOA and fill in the appropriate oval in Part 1.

► **Full Employment Credit:** Every employer who participates in the Full Employment Program and continues to employ a participant for at least one full month after any Full Employment Program subsidy for that participant has expired may claim the Full Employment Credit. A qualified employer may claim a credit equal to \$100 per month of eligible employment per participant, with a maximum credit of \$1,200 per participant. Qualified participants and employers are those who participate in the Full Employment Program under the rules of the Department of Transitional Assistance (DTA). A five-year carryover of any unused credit is allowed. If you qualify for this credit, complete Massachusetts Schedule FEC, Full Employment Credit, and fill in the appropriate oval in Part 1.

► **Septic Credit:** An owner of residential property located in Massachusetts who occupies the property as his or her principal residence is allowed a credit of a maximum of \$1,500 per taxable year for expenses incurred to comply with the sewer system requirements of Title V as promulgated by the Department of Environmental Protection or to connect to a municipal sewer system pursuant to a federal court order, administrative consent order, state court order, consent decree or similar mandate. The amount of the credit is 40% of the cost, up to \$15,000, for design and construction expenses for repair or replacement of a failed cesspool or septic system. The maximum aggregate amount of the credit is \$6,000. A five-year carryover of any unused credit is allowed. See TIRs 97-12, 98-8, 99-5 and DOR Directive 01-6 for more information. If you qualify for this credit, complete Massachusetts Schedule SC, Septic Credit, and fill in the appropriate oval in Part 1.

► **Brownfields Credit:** Effective for tax years beginning on or after January 1, 1999, taxpayers are allowed a credit for amounts expended to rehabilitate contaminated property owned or leased for business purposes and located within an economically distressed area. In general, the credit is 25% or 50% of certain en-

environmental response and removal costs incurred between August 1, 1998, and January 1, 2007, provided that the taxpayer commences and diligently pursues an environmental response action before August 5, 2003. The credit that may be taken in any taxable year is limited to 50% of the taxpayer's tax liability. A five-year carryforward of unused credit is allowed, provided the taxpayer continues to maintain the remedies required by law. For more information, see TIRs 99-13 and 00-9.

► **Low-Income Housing Credit:** A new low-income housing credit is available to individual taxpayers. The Department of Housing and Community Development will allocate the low-income housing credit from a pool of available credits granted under section 42 of the Internal Revenue Code among qualified low income housing projects. A taxpayer allocated a federal low-income housing credit may also be eligible for a state credit based on the credit amount allocated to a low-income housing project that the taxpayer owns. A five-year carryforward of unused credit is allowed. See TIR 99-19 for more information. If you qualify for the credit, fill in the appropriate oval in Part 1.

Nonresidents and part-year residents, enter the total amount of all credits claimed in Part 1 in Schedule Z, line 1 and enter line 1 total on Form 1-NR/PY, line 33. Part-year residents, complete line 2, if applicable.

2 Part 2 Credits for Residents and Part-Year Residents Only

► **Income Tax Paid to Another State:** If any of the income reported on this return is subject to taxation in another state or jurisdiction and you have filed a return and paid taxes in the other state or jurisdiction, complete Schedule F on the back of page 3 of Form 1-NR/PY to calculate the credit and fill in the appropriate oval in Part 2. Also, be sure to enter the two-letter state or jurisdictional postal code for each state or jurisdiction for which you are taking the credit. Visit the United State Postal Service's website at www.usps.com and click on "Service Guides" for a list of these codes. See Schedule F instructions.

► **Energy:** If you had expenditures for certain renewable energy source items, such as equipment which uses or transmits solar or wind energy to heat, cool, or provide hot water for your principal residence in Massachusetts, you may qualify for a credit. Massachusetts does not allow a credit for expenditures on items such as: insulation, storm or thermal windows or doors, caulking, weather-stripping, heat pumps (air and water), wood burning stoves or furnaces, and costs for energy conservation. If you qualify for the credit, complete Massachusetts Schedule EC, Residential Energy Credit, and fill in the appropriate oval in Part 2.

Part-year residents, enter the total amount of the credits claimed in Part 2 in Schedule Z, line 2 and enter line 2 total on Form 1-NR/PY, line 34.

Schedule E, Part I

Note: If showing a loss, be sure to mark over the "X" in the box to the left.

Rental, Royalty and REMIC Income or Loss

2 Massachusetts Differences

Enter and explain any amounts or differences included in line 1 which are not taxable to you in Massachusetts or which have already been taxed on a Massachusetts return. Explain the differences in the space provided or attach an additional sheet if necessary. Possible differences include:

Nonresidents. Enter any rental, royalty or REMIC income or losses included in line 1 which is not Massachusetts source income and thus not taxable to you as a nonresident. Massachusetts source rental income must be from real or tangible personal property located in Massachusetts.

Part-year residents. Enter any rental, royalty or REMIC income or losses included in line 1 you received while you were not a resident of Massachusetts.

Trust Provisions

Enter any rental or royalty income or losses shown on your U.S. return that is taxed on a Massachusetts Fiduciary Return, Form 2.

Deductible Royalties from U.S. Energy Conservation Patents

Enter any income you received from U.S. patents that are approved by the Massachusetts Division of Energy Resources as being useful for energy conservation or for alternative energy development. Request approval from the Division of Energy Resources, Attention: General Counsel, 70 Franklin St., 7th Floor, Boston, MA 02110, or call (617) 727-4732. Enclose a copy of such approval to your tax return. If such approved income is other than royalty income, use the applicable schedule and explain.

Passive Losses

As a result of differences in U.S. and Massachusetts rules in 1987, the calculations you made for passive losses on your 1987 U.S. and Massachusetts returns may have differed. Differences in amounts reported in 1987 for U.S. and Massachusetts tax purposes should be adjusted when the property is disposed of or the deduction is used up. In addition, passive losses allowed for Massachusetts tax purposes in 1987, but carried over for U.S. tax purposes, cannot be used again for Massachusetts tax purposes when such carryover losses are eventually allowed for U.S. tax purposes.

To the extent there are applicable adjustments for Massachusetts differences, taxpayers must calculate allowable losses on a pro forma U.S. Form 8582, Passive Activity Loss Limitations.

“Bonus” Depreciation

Massachusetts depreciation has been decoupled from the federal “bonus” depreciation law. For Massachusetts purposes, for taxable years ending after September 10, 2001, depreciation is to be claimed on all assets, regardless of when they are placed in service, using the method used for federal income tax purposes prior to the enactment of sec. 168(k). For more information see TIR 02-11.

4 Abandoned Building Renovation Deduction

In line 4 enter 10% of the costs of renovating a qualifying abandoned building in an Economic Opportunity Area. For further information, contact the Massachusetts Office of Business Development, 10 Park Plaza, Suite 3720, Boston, MA 02116 or call (617) 973-8600.

5 Total Rental and Royalty Income or Loss for Massachusetts

Subtract line 4 from line 3. Remember to subtract losses when calculating the total. Line 5 should be added to any amounts in Schedule E, Part II, line 8 and/or Part III, line 11 and the total entered on Form 1-NR/PY, line 9.

Schedule E, Part II

Note: If showing a loss, be sure to mark over the “X” in the box to the left.

Income or Loss from Partnerships and S Corporations**2 Massachusetts Differences**

Enter and explain any differences between total partnership and S corporation income on the U.S. return and the same type of income on your Massachusetts return. Enclose an additional statement, if necessary. Refer back to Schedule E, Part I, line 2 instructions for further guidance. If you use information from Massachusetts Schedule 3K-1 or Schedule SK-1, take care not to duplicate adjustments already made for differences in U.S. and Massachusetts tax treatments.

Nonresidents. Income or loss included in U.S. Schedule E, Part II, line 31, which is derived from partnerships or S corporations not doing business in Massachusetts is not taxable to you as a nonresident. Also, enter adjustments as differences if your partnerships or S corporations are entitled to apportion income in Massachusetts.

Part-year residents. Income or loss from partnerships or S corporations you received while you were not a resident of Massachusetts is not taxable to you as a part-year resident.

4 Abandoned Building Renovation Deduction

In line 4 enter 10% of the costs of renovating a qualifying abandoned building. For further information, refer to the instructions for Schedule E, Part I, line 4.

6 12% Interest and Dividends

Enter 12% interest and dividends from trade or business activity(ies) if included in line 5 from partnerships and S corporations. This income must be entered in Massachusetts Schedule B, line 3. This information should be provided by the partnership or S corporation.

7 Interest from Massachusetts Banks

Enter interest from Massachusetts banks from trade or business activity(ies) if reported in line 5. This income must be reported on Form 1-NR/PY, line 7a. This information should be provided by the partnership or S corporation.

8 Total Income or Loss from Partnerships and S Corporations

Subtract the total of lines 6 and 7 from line 5. Remember to subtract losses when calculating the total. Line 8 should be added to any amounts in Schedule E, Part I, line 5 and/or Part III, line 11 and the total entered on Form 1-NR/PY, line 9.

Schedule E, Part III

Note: If showing a loss, be sure to mark over the “X” in the box to the left.

Income or Loss from Grantor-Type Trusts and Non-Massachusetts Estates and Trusts**2 Massachusetts Differences**

Enter and explain any differences between estate and trust income or loss on the U.S. return and the same type of income on your Massachusetts return. Refer to Schedule E, Part I, line 2 instructions for further guidance.

4 Abandoned Building Renovation Deduction

In line 4 enter 10% of the costs of renovating a qualifying abandoned building. For further information, refer to the instructions for Schedule E, Part I, line 4.

6 Estate or Nongrantor-Type Trust Income

Enter estate or nongrantor-type trust income taxed directly on your Massachusetts Fiduciary Return, Form 2, if included in line 5. If you do not know this amount, check either your U.S. Schedule K-1 or contact your trustee or other fiduciary.

7 Massachusetts Taxable Income from Estates or Trusts Not Previously Taxed

Subtract line 6 from line 5. Generally, for nonresidents, the only amount entered in line 5 will be the income from grantor-type trusts. Other Massachusetts source income should be taxed at the estate or trust level.

8 12% Interest and Dividends

Enter any 12% interest and dividends if included in line 7 and enter on Massachusetts Schedule B, line 3.

9 Adjustment of 5.3% Income

Enter the total of interest from Massachusetts banks if included in line 7. This income must be reported on Form 1-NR/PY, line 7a. Enter the total of pension and annuity income if included in line 7. This income must be reported on Form 1-NR/PY, line 6.

11 Income or Loss from Grantor-Type and Non-Massachusetts Estates and Trusts

Subtract line 10 from line 7. Remember to subtract losses when calculating the total. Line 11 should be added to any amount(s) in Schedule E, Part I, line 5 and/or Part II, line 8 and the total entered on Form 1-NR/PY, line 9.

Schedule B

Note: If showing a loss, be sure to mark over the "X" in the box to the left.

12% Interest, Dividend and Certain Capital Gains and Losses

Nonresidents and part-year residents must file Massachusetts Schedule B if you had:

- ▶ dividend income in excess of \$1,500;
- ▶ any interest income other than from Massachusetts banks taxed at 5.3%;
- ▶ short-term capital gains or losses;
- ▶ carryover short-term losses from prior years;
- ▶ long-term gains on collectibles and pre-1996 installment sales classified as capital gain income for Massachusetts purposes;
- ▶ gains or losses from the sale, exchange or involuntary conversion of property used in a trade or business;
- ▶ net long-term capital gains and losses; or
- ▶ excess exemptions.

Collectibles are defined as any capital asset that is a collectible within the meaning of Internal Revenue Code section 408(m), as amended and in effect for the taxable year, including works of art, rugs, antiques, metals, gems, stamps, alcoholic beverages, certain coins, and any other items treated as collectibles for federal tax purposes.

Nonresidents, interest and dividends are from Massachusetts sources if they are directly connected with your business activity in Massachusetts. Also, report on Massachusetts Schedule B the short-term gain or loss realized from the transaction of assets being sold or exchanged which are considered to be from Massachusetts sources. Massachusetts source assets are (1) real or tangible personal property located in Massachusetts and (2) property connected with a Massachusetts trade, business or employment.

Nonresidents need not file Massachusetts Schedule B if:

- ▶ all your interest and dividend income and certain capital gains was from non-Massachusetts sources;
- ▶ all Massachusetts source interest income you had was from Massachusetts banks and is taxed at 5.3% (reportable on Form 1-NR/PY, line 7a); or
- ▶ your Massachusetts source gross dividend income was \$1,500 or less (reportable on Form 1-NR/PY, line 24).

Part-year residents, dividend income in excess of \$1,500 or any interest income other than from Massachusetts banks (reportable on Form 1-NR/PY, line 7a) received while you were a resident of Massachusetts, whether received from sources inside or outside of Massachusetts, must be reported on Massachusetts Schedule B. Also, short-term gains or losses realized while you were a resident of Massachusetts, whether received from sources inside or outside of Massachusetts, from the sale or exchange of capital assets or from similar transactions which are granted capital gain or loss treatment on your U.S. return must be reported on Schedule B. Include gains from all property, wherever located.

Part-year residents need not file Massachusetts Schedule B if all interest income you had that is taxable by Massachusetts was from Massachusetts banks (reportable on Form 1-NR/PY, line 7a), and your gross dividend income was \$1,500 or less (reportable on Form 1-NR/PY, line 24), and you have no short-term capital gains or losses, long-term gains on collectibles and pre-1996 installment sales, gains or losses from the sale, exchange or involuntary conversion of property used in a trade or business, allowable deductions from your trade or business, carryover short-term losses from prior years, net long-term capital gains or losses, or excess exemptions.

▶ Nonresidents and part-year residents must complete Massachusetts Schedule B if your interest or dividend income includes: dividends taxed directly to trusts or estates on a Massachusetts Fiduciary Return, Form 2; distributions that are returns of capital; or exempt portions of any interest or dividends from a mutual fund or dividends from current earnings of a corporate trust that are taxed directly on a Massachusetts Corporate Trust Return, Form 3F.

▶ You need not complete Schedule B, Part 2, Part 3 and Part 4 if you do not have any of the following: short-term capital gains or losses; carryover short-term losses from prior years; long-term gains on collectibles and pre-1996 installment sales classified as capital gain income for Massachusetts purposes; gains or losses from the sale, exchange or involuntary conversion of property used in a trade or business and held for one year or less; allowable deductions from your trade or business; net long-term capital gains or losses; or excess exemptions (see line 9 instructions).

Part 1. 12% Interest and Dividend Income

1 Total Interest Income

Enter your total interest income from your U.S. Form 1040 or 1040A, lines 8a and 8b, U.S. Form 1040EZ, line 2, or U.S. Tele-file Tax Record, item C.

2 Total Ordinary Dividends

Enter your total ordinary dividends from your U.S. Schedule B, Part II, line 6 (Form 1040) or U.S. Schedule 1, Part II, line 6 (Form 1040A). If you did not file U.S. Schedule B or U.S. Schedule 1, enter the amount from U.S. Form 1040 or 1040A, line 9.

3 Other Interest and Dividends

Enter the following amounts and their sources (enclose additional statement if more space is necessary):

- ▶ Interest from obligations of other states and their political subdivisions (including your share, if any, from a partnership, an S corporation and a grantor-type trust or non-Massachusetts trust). Do not include exempt interest already included in line 1;
- ▶ Taxable distributions from Massachusetts S corporations not reported in Schedule B, line 2. Distributions in excess of the Massachusetts accumulated adjustments account are dividends to the extent of the corporation's Massachusetts accumulated earnings and profits. For more information, see Regulation 830 CMR 62.17A.1;
- ▶ Interest and dividends from a partnership, S corporation, grantor-type trust, or non-Massachusetts estate or trust from Massachusetts Schedule E. Generally, portfolio interest and dividend income from partnerships and S corporations should already be included in the Schedule B, line 1 and line 2 amounts;
- ▶ Interest from a trade or business that is reported on Massachusetts Schedule C, line 32; or
- ▶ Interest or dividends from a mutual fund, if such distributions are not included in line 1 or line 2. See line 6.

Lines 5 and 6

Enter only amounts related to income that you have already included in lines 1, 2, and 3.

5 Total Interest from Massachusetts Banks

Enter the total interest included in Form 1-NR/PY, line 7a (prior to the exemption amount being subtracted) only if it has been included in lines 1 or 3 of this schedule.

6 Other Interest and Dividends to Be Excluded

Enter the total interest and dividends from the following sources (enclose an additional statement, if necessary):

- ▶ Interest on U.S. debt obligations. Enter interest received on U.S. treasury bills, notes and bonds, savings bonds or other obligations of the United States, including its territories or dependencies. Such interest is tax-exempt in Massachusetts. For further information concerning exempt obligations of the United States, refer to TIR 89-8;
- ▶ Interest and dividends taxed directly to Massachusetts estates and trusts. Enter the interest and dividends that are taxed directly to a Massachusetts estate or trust (reportable on a Massachusetts Fiduciary Return, Form 2);
- ▶ Any distribution which is a return of capital included in total gross dividends, line 2;
- ▶ Any exempt portion of interest or dividends from a mutual fund included in lines 1, 2 or 3 of this schedule. Enter only the exempt portion of interest or dividends derived from obligations of Massachusetts or its political subdivisions;
- ▶ Any interest or dividends from obligations of the Commonwealth of Massachusetts or its political subdivisions held by you;
- ▶ Any dividends from current earnings of a corporate trust only if such entity is taxed directly on a Massachusetts Corporate Trust Return, Massachusetts Form 3F; or
- ▶ Any interest on pre-retirement distributions from state and municipal contributory pension plans;
- ▶ **Nonresidents.** Any amounts included in lines 1, 2 and 3 which you received from sources other than Massachusetts; or
- ▶ **Part-year residents.** Any amounts included in lines 1, 2 or 3 which you received while legally domiciled in another state or country.

Do not enter in line 6 either of the following:

- ▶ Dividends from the earnings and profits accumulated prior to January 1, 1971 by any corporate trust which was not taxed directly by Massachusetts in prior years, even though such an entity is taxed directly now (obtain from the entity the taxable status of dividends paid to you); or
- ▶ Dividends from any corporate trust which is not taxed directly by Massachusetts. Such entities include: those not doing business in Massachusetts; regulated investment companies or real estate investment trusts (both as defined under the U.S. Internal Revenue Code, Sections 851 and 856); holding companies (as

defined in Massachusetts General Laws, Chapter 62, section 8); or those which derive less than 10% of their income from business activities or transactions in Massachusetts.

8 Allowable Deductions From Your Trade or Business

Enter the amount from Massachusetts Schedule C-2, line 8 if you qualify for an excess trade or business deduction. Generally, taxpayers may not use excess 5.3% deductions to offset other income. However, where the taxpayer files a Massachusetts Schedule C or Schedule E, Massachusetts law allows such offsets if the following requirements are met: the excess 5.3% deductions must be adjusted gross income deductions allowed under MGL Ch. 62, sec. 2(d); and these excess deductions may only be used to offset other income which is effectively connected with the active conduct of a trade or business or any other income allowed under IRC, sec. 469(d)(1)(B) to offset losses from passive activities.

9 Subtotal Interest and Dividend Income

Subtract line 8 from line 7. If you have no short-term capital gains or losses, carryover short-term losses from prior years, long-term gains on collectibles and pre-1996 installment sales classified as capital gain income for Massachusetts purposes, gains or losses from the sale, exchange or involuntary conversion of property used in a trade or business and held for one year or less, allowable deductions from your trade or business, net long-term capital gains or losses, or excess exemptions, omit lines 10 through 37. Enter the amount from line 9 in line 38 of Schedule B and on Form 1-NR/PY, line 24, and omit lines 39 and 40 of Schedule B. Otherwise, complete Parts 2, 3 and 4.

Part 2. Short-Term Capital Gains and Losses and Long-Term Gains on Collectibles and Pre-1996 Installment Sales

If there are any differences between U.S. and Massachusetts amounts reported in lines 10, 11, 12, 16 and 17, be sure to enter the Massachusetts amount. Possible differences include:

- ▶ Part-year residents, transactions conducted while you were legally domiciled in another state or country;
- ▶ Nonresidents, transactions that were not associated with a trade or business in Massachusetts;
- ▶ Short-term capital gains taxed directly to Massachusetts estates and trusts (reportable on a Massachusetts Fiduciary Return, Form 2);
- ▶ Upon the sale of stock of an S corporation, the federal basis must be modified according to Massachusetts Income Tax Regulation, 830 CMR 62.17A.1; and

▶ Massachusetts has adopted basis adjustment rules to take into account differences between Massachusetts and federal tax laws. For more information regarding basis adjustment rules, see TIR 88-7 or the *Guide to Filing Your 2002 Massachusetts Income Taxes*.

10 Short-Term Capital Gains

Enter the gross short-term capital gains included in U.S. Schedule D, lines 1, 2, 4 and 5, column (f).

11 Long-Term Capital Gains on Collectibles and Pre-1996 Installment Sales

Enter the amount of long-term capital gains on collectibles and pre-1996 installment sales classified as capital gain income for Massachusetts purposes, from Massachusetts Schedule D, Part 1, line 11, columns A, B, C, D, E and F and Part 2, line 10.

12 Gain on Sale of Business Property

Enter from U.S. Form 4797 the amount of gain from the sale, exchange or involuntary conversion of property used in a trade or business and held for one year or less.

14 Allowable Deductions From Your Trade or Business

Enter the amount from Massachusetts Schedule C-2, line 11 if you qualify for an excess trade or business deduction. Generally, taxpayers may not use excess 5.3% deductions to offset other income. However, where the taxpayer files a Massachusetts Schedule C or Schedule E, Massachusetts law allows such offsets if the following requirements are met: the excess 5.3% deductions must be adjusted gross income deductions allowed under MGL Ch. 62, sec. 2(d); and these excess deductions may only be used to offset other income which is effectively connected with the active conduct of a trade or business or any other income allowed under IRC, sec. 469(d)(1)(B) to offset losses from passive activities.

16 Short-Term Capital Losses

Enter the gross short-term capital losses included in U.S. Schedule D, lines 1, 2, 4 and 5, column (f).

17 Loss on Sale of Business Property

Enter from U.S. Form 4797 the amount of loss from the sale, exchange or involuntary conversion of property used in a trade or business and held for one year or less.

18 Prior Years Short-Term Unused Losses

You may use short-term losses accumulated in the previous taxable years beginning after 1981 in the computation of short-term gain or loss for the current year. Enter here the amount from your 2001 Massachusetts Schedule B, line 26.

19 Subtotal Interest and Dividends and Certain Capital Gains and Losses

Combine lines 15 through 18. If "0" or greater, omit lines 20 through 23 and enter the amount from line 19 in line 24. If less than "0," complete line 20.

20 Short-Term Losses Applied Against Interest and Dividends

Enter the smaller of line 9 or line 19 (as a positive amount). Not more than \$2,000.

21 Available Short-Term Losses

Combine lines 19 and 20. If line 21 is less than "0," go to line 22. If line 21 is "0," omit lines 22-28 and go to Part 3.

22 Short-Term Losses Applied Against Long-Term Gains

If Schedule B, line 21 is a loss and any amount in Schedule D, Part 1, line 14, columns A, B, C, D, E or F or Schedule D, Part 2, line 13 is a positive amount, complete the Short-Term Capital Losses Applied Against Long-Term Capital Gains Worksheet for Schedule B, Line 22 and Schedule D, Part 1, Line 15 and Schedule D, Part 2, line 14 on page 41. When completing the worksheet, be sure to enter all losses as a positive amount.

23 Short-Term Losses for Carryover in 2003

Combine line 21 and line 22 and enter the result in line 23 and in line 40, omit lines 24 through 28 and complete Part 3 and Part 4.

24 Short-Term Gains and Long-Term Gains on Collectibles

Enter the amount from Schedule B, line 19. If Schedule D, Part 1, line 14, columns A, B, C, D, E or F or Schedule D, Part 2, line 13 is "0" or greater, omit line 25 and enter the amount from line 24 in line 26. If Schedule D, Part 1, line 14, columns A, B, C, D, E or F or Schedule D, Part 2, line 13 is a loss, go to line 25.

25 Long-Term Losses Applied Against Short-Term Gains

If Schedule B, line 24 is a positive amount and any amount in Schedule D, Part 1, line 14, columns A, B, C, D, E or F or Schedule D, Part 2, line 13 is a loss, complete the Long-Term Capital Losses Applied Against Short-Term Capital Gains Worksheet for Schedule B, Line 25 and Schedule D, Part 1, Line 15 and Schedule D, Part 2, line 14 on page 41. When completing the worksheet, be sure to enter all losses as a positive amount.

27 Long-Term Gains Deduction

Complete only if lines 11 and 26 are greater than "0." If there is no entry in line 11, enter "0." If line 11 shows a gain, enter 50% of line 11 minus 50% of losses in lines 16, 17, 18 and 25, but not less than "0."

Example: Jack has a long-term capital gain on collectibles of \$1,000 entered in line 11 and line 15. He does not have any other interest income (other than interest from Massachusetts banks) and dividend income. Jack also has a short-term capital loss of \$100 entered in line 16 and a prior year short-term unused loss of \$200 entered in line 18. Jack enters \$350 in line 27: $\$500$ (50% of \$1,000) minus $\$150$ (50% of \$300) = $\$350$.

Part 3. Adjusted Gross Interest, Dividends Short-Term Capital Gains and Long-Term Gains on Collectibles**31 Subtotal Interest and Dividends**

If Schedule D, Part 1, line 16, columns A, B, C, D, E or F or Schedule D, Part 2, line 15 is "0" or greater, omit line 32 and enter the amount from line 31 in line 33. If Schedule D, Part 1, line 16, columns A, B, C, D, E or F or Schedule D, Part 2, line 15 is a loss, go to line 32.

32 Long-Term Losses Applied Against Interest and Dividends

If Schedule B, line 31 is a positive amount and any amount in Schedule D, Part 1, line 16, columns A, B, C, D, E or F or Schedule D, Part 2, line 15 is a loss, complete the Long-Term Capital Losses Applied Against Interest and Dividends Worksheet for Schedule B, Line 32 and Schedule D, Part 1, Line 17 and Schedule D, Part 2, line 16 on page 42. When completing the worksheet, be sure to enter all losses as a positive amount.

Part 4. Taxable Interest, Dividends and Certain Capital Gains**36 Excess Exemptions**

Enter the amount from line 5 of the Excess Exemption Worksheet on page 23. Complete only if single, head of household or married filing a joint return and Form 1-NR/PY, line 22 is greater than Form 1-NR/PY, line 21.

38 Interest and Dividends Taxable at 5.3%

If line 37 is greater than or equal to line 9, enter the amount from line 9 here and on Form 1-NR/PY, line 24. If line 37 is less than line 9, enter the amount from line 37 here and on Form 1-NR/PY, line 24.

39 Taxable 12% Capital Gains

Subtract line 38 from line 37. Not less than "0." Enter the result here and on Form 1-NR/PY, line 27a.

40 Available Short-Term Losses for Carryover in 2003

Enter the amount from line 23, only if it is a loss. If line 23 is not completed, enter "0."

Note: Before completing the Short-Term Capital Losses Applied Against Long-Term Capital Gains Worksheet for Schedule B, Line 22 and Schedule D, Part 1, Line 15 and Schedule D, Part 2, Line 14, you must have completed Schedule B, line 21 and Schedule D, Part 1, line 14 and Schedule D, Part 2, line 13.

Before completing the Long-Term Capital Losses Applied Against Short-Term Capital Gains Worksheet for Schedule B, line 25 and Schedule D, Part 1, Line 15 and Schedule D, Part 2, Line 14, you must have completed Schedule B, line 24 and Schedule D, Part 1, line 14 and Schedule D, Part 2, line 13.

Before completing the Long-Term Capital Losses Applied Against Interest and Dividends Worksheet for Schedule B, line 32 and Schedule D, Part 1, Line 17 and Schedule D, Part 2, Line 16, you must have completed Schedule B, line 31 and Schedule D, Part 1, line 16 and Schedule D, Part 2, line 15.

If you need additional information on how to net capital gains against capital losses, visit DOR's website at www.mass.gov/dor.

Short-Term Capital Losses Applied Against Long-Term Capital Gains Worksheet for Schedule B, Line 22 and Schedule D, Part 1, Line 15 and Schedule D, Part 2, line 14. Complete only if Schedule B, line 21 is a loss and any amount in Schedule D, Part 1, line 14, column A, B, C, D, E or F or Schedule D, Part 2, line 13 is a positive amount. Enter all losses as positive amounts.

1. Enter amount from Schedule B, line 21 as a positive amount.
2. Enter any gain from Schedule D, Part 1, line 14, column A. Otherwise, enter "0".
3. If line 1 is smaller than or equal to line 2, enter line 1 here and in Schedule D, Part 1, line 15, column A. If line 1 is larger than line 2, enter line 2 here and in Schedule D, Part 1, line 15, column A.
4. Subtract line 3 from line 1. If "0," omit lines 5 through 21 and complete line 22. Otherwise, complete lines 5 through 7.
5. Enter any gain from Schedule D, Part 1, line 14, column B. Otherwise, enter "0".
6. If line 4 is smaller than or equal to line 5, enter line 4 here and in Schedule D, Part 1, line 15, column B. If line 4 is larger than line 5, enter line 5 here and in Schedule D, Part 1, line 15, column B.
7. Subtract line 6 from line 4. If "0," omit lines 8 through 21 and complete line 22. Otherwise, complete lines 8 through 10.
8. Enter any gain from Schedule D, Part 1, line 14, column C. Otherwise, enter "0".
9. If line 7 is smaller than or equal to line 8, enter line 7 here and in Schedule D, Part 1, line 15, column C. If line 7 is larger than line 8, enter line 8 here and in Schedule D, Part 1, line 15, column C.
10. Subtract line 9 from line 7. If "0," omit lines 11 through 21 and complete line 22. Otherwise, complete lines 11 through 13.
11. Enter any gain from Schedule D, Part 1, line 14, column D. Otherwise, enter "0".

12. If line 10 is smaller than or equal to line 11, enter line 10 here and in Schedule D, Part 1, line 15, column D. If line 10 is larger than line 11, enter line 11 here and in Schedule D, Part 1, line 15, column D.
13. Subtract line 12 from line 10. If "0," omit lines 14 through 21 and complete line 22. Otherwise, complete lines 14 through 16.
14. Enter any gain from Schedule D, Part 1, line 14, column E. Otherwise, enter "0".
15. If line 13 is smaller than or equal to line 14, enter line 13 here and in Schedule D, Part 1, line 15, column E. If line 13 is larger than line 14, enter line 14 here and in Schedule D, Part 1, line 15, column E.
16. Subtract line 15 from line 13. If "0," omit lines 17 through 21 and complete line 22. Otherwise, complete lines 17 through 19.
17. Enter any gain from Schedule D, Part 1, line 14, column F. Otherwise, enter "0".
18. If line 16 is smaller than or equal to line 17, enter line 16 here and in Schedule D, Part 1, line 15, column F. If line 16 is larger than line 17, enter line 17 here and in Schedule D, Part 1, line 15, column F.
19. Subtract line 18 from line 16. If "0," omit lines 20 and 21 and complete line 22. Otherwise, complete lines 20 through 22.
20. Enter any gain from Schedule D, Part 2, line 13. Otherwise, enter "0".
21. If line 19 is smaller than or equal to line 20, enter line 19 here and in Schedule D, Part 2, line 14. If line 19 is larger than line 20, enter line 20 here and in Schedule D, Part 2, page 4, line 14.
22. Add items 3, 6, 9, 12, 15, 18 and 21. Enter the result here and in Schedule B, line 22.

Long-Term Capital Losses Applied Against Short-Term Capital Gains Worksheet for Schedule B, Line 25 and Schedule D, Part 1, Line 15 and Schedule D, Part 2, Line 14. Complete only if Schedule B, line 24 is a positive amount and any amount in Schedule D, Part 1, line 14, columns A, B, C, D, E or F or Schedule D, Part 2, line 13 is a loss. Enter all losses as positive amounts.

1. Enter amount from Schedule B, line 24.
2. Enter any loss from Schedule D, Part 1, line 14, column A as a positive amount. Otherwise, enter "0".
3. If line 1 is smaller than or equal to line 2, enter line 1 here and in Schedule D, Part 1, line 15, column A. If line 1 is larger than line 2, enter line 2 here and in Schedule D, Part 1, line 15, column A.
4. Subtract line 3 from line 1. If "0," omit lines 5 through 21 and complete line 22. Otherwise, complete lines 5 through 7.
5. Enter any loss from Schedule D, Part 1, line 14, column B as a positive amount. Otherwise, enter "0".
6. If line 4 is smaller than or equal to line 5, enter line 4 here and in Schedule D, Part 1, line 15, column B. If line 4 is larger than line 5, enter line 5 here and in Schedule D, Part 1, line 15, column B.

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7. Subtract line 6 from line 4. If "0," omit lines 8 through 21 and complete line 22. Otherwise, complete lines 8 through 10
8. Enter any loss from Schedule D, Part 1, line 14, column C as a positive amount. Otherwise, enter "0"
9. If line 7 is smaller than or equal to line 8, enter line 7 here and in Schedule D, Part 1, line 15, column C. If line 7 is larger than line 8, enter line 8 here and in Schedule D, Part 1, line 15, column C
10. Subtract line 9 from line 7. If "0," omit lines 11 through 21 and complete line 22. Otherwise, complete lines 11 through 13
11. Enter any loss from Schedule D, Part 1, line 14, column D as a positive amount. Otherwise, enter "0"
12. If line 10 is smaller than or equal to line 11, enter line 10 here and in Schedule D, Part 1, line 15, column D. If line 10 is larger than line 11, enter line 11 here and in Schedule D, Part 1, line 15, column D
13. Subtract line 12 from line 10. If "0," omit lines 14 through 21 and complete line 22. Otherwise, complete lines 14 through 16
14. Enter any loss from Schedule D, Part 1, line 14, column E as a positive amount. Otherwise, enter "0"
15. If line 13 is smaller than or equal to line 14, enter line 13 here and in Schedule D, Part 1, line 15, column E. If line 13 is larger than line 14, enter line 14 here and in Schedule D, Part 1, line 15, column E
16. Subtract line 15 from line 13. If "0," omit lines 17 through 21 and complete line 22. Otherwise, complete lines 17 through 19
17. Enter any loss from Schedule D, Part 1, line 14, column F as a positive amount. Otherwise, enter "0"
18. If line 16 is smaller than or equal to line 17, enter line 16 here and in Schedule D, Part 1, line 15, column F. If line 16 is larger than line 17, enter line 17 here and in Schedule D, Part 1, line 15, column F
19. Subtract line 18 from line 16. If "0," omit lines 20 and 21 and complete line 22. Otherwise, complete lines 20 through 22
20. Enter any loss from Schedule D, Part 2, line 13 as a positive amount. Otherwise, enter "0"
21. If line 19 is smaller than or equal to line 20, enter line 19 here and in Schedule D, Part 2, line 14. If line 19 is larger than line 20, enter line 20 here and in Schedule D, Part 2, line 14
22. Add items 3, 6, 9, 12, 15, 18 and 21. Enter the result here and in Schedule B, line 25.

Long-Term Capital Losses Applied Against Interest and Dividends Worksheet for Schedule B, Line 32 and Schedule D, Part 1, Line 17 and Schedule D, Part 2, Line 16. Complete only if Schedule B, line 31 is a positive amount and any amount in Schedule D, Part 1, line 16, columns A, B, C, D, E or F or Schedule D, Part 2, line 15 is a loss. Enter all losses as positive amounts.

1. Enter amount from Schedule B, line 29
2. Enter the lesser of line 1 or \$2,000
3. Enter the amount from Schedule B, line 30
4. Subtract line 3 from line 2. If "0" or less omit the remainder of worksheet. Otherwise, complete lines 5 through 7
5. Enter any loss from Schedule D, Part 1, line 16, column A as a positive amount. Otherwise, enter "0"
6. If line 4 is smaller than or equal to line 5, enter line 4 here and in Schedule D, Part 1, line 17, column A. If line 4 is larger than line 5, enter line 5 here and in Schedule D, Part 1, line 17, column A
7. Subtract line 6 from line 4. If "0," omit lines 8 through 24 and complete line 25. Otherwise, complete lines 8 through 10
8. Enter any loss from Schedule D, Part 1, line 16, column B as a positive amount. Otherwise, enter "0"
9. If line 7 is smaller than or equal to line 8, enter line 7 here and in Schedule D, Part 1, line 17, column B. If line 7 is larger than line 8, enter line 8 here and in Schedule D, Part 1, line 17, column B
10. Subtract line 9 from line 7. If "0," omit lines 11 through 24 and complete line 25. Otherwise, complete lines 11 through 13
11. Enter any loss from Schedule D, Part 1, line 16, column C as a positive amount. Otherwise, enter "0"
12. If line 10 is smaller than or equal to line 11, enter line 10 here and in Schedule D, Part 1, line 17, column C. If line 10 is larger than line 11, enter line 11 here and in Schedule D, Part 1, line 17, column C
13. Subtract line 12 from line 10. If "0," omit lines 14 through 24 and complete line 25. Otherwise, complete lines 14 through 16
14. Enter any loss from Schedule D, Part 1, line 16, column D as a positive amount. Otherwise, enter "0"
15. If line 13 is smaller than or equal to line 14, enter line 13 here and in Schedule D, Part 1, line 17, column D. If line 13 is larger than line 14, enter line 14 here and in Schedule D, Part 1, line 17, column D
16. Subtract line 15 from line 13. If "0," omit lines 17 through 24 and complete line 25. Otherwise, complete lines 17 through 19
17. Enter any loss from Schedule D, Part 1, line 16, column E as a positive amount. Otherwise, enter "0"
18. If line 16 is smaller than or equal to line 17, enter line 16 here and in Schedule D, Part 1, line 17, column E. If line 16 is larger than line 17, enter line 17 here and in Schedule D, Part 1, line 17, column E
19. Subtract line 18 from line 16. If "0," omit lines 20 through 24 and complete line 25. Otherwise, complete lines 20 through 22

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- 20.** Enter any loss from Schedule D, Part 1, line 16, column F as a positive amount. Otherwise, enter "0" _____
- 21.** If line 19 is smaller than or equal to line 20, enter line 19 here and in Schedule D, Part 1, line 17, column F. If line 19 is larger than line 20, enter line 20 here and in Schedule D, Part 1, line 17, column F. _____
- 22.** Subtract line 21 from line 19. If "0," omit lines 23 and 24 and complete line 25. Otherwise, complete lines 23 through 25. _____
- 23.** Enter any loss from Schedule D, Part 2, line 15 as a positive amount. Otherwise, enter "0" _____
- 24.** If line 22 is smaller than or equal to line 23, enter line 22 here and in Schedule D, Part 2, line 16. If line 22 is larger than line 23, enter line 23 here and in Schedule D, Part 2, line 16 _____
- 25.** Add items 6, 9, 12, 15, 18, 21 and 24. Enter the result here and in Schedule B, line 32. _____

Schedule D

Note: If showing a loss, be sure to mark over the X in the box to the left.

Long-Term Capital Gains and Losses Excluding Collectibles

Nonresidents. The long-term gain or loss realized from the transaction of assets being sold or exchanged which are considered to be from Massachusetts sources must be reported on Massachusetts Schedule D. Long-term capital gains are gains on the sale or exchange of capital assets that have been held for more than one year on the date of sale or exchange. Long-term capital losses are losses on the sale or exchange of capital assets that have been held for more than one year on the date of sale or exchange. Holding periods will be deemed not to have begun prior to January 1, 1995. Massachusetts source assets are (1) real or tangible personal property located in Massachusetts and (2) property connected with a Massachusetts trade, business or employment.

Part-year residents. The long-term gains or losses realized while you were a resident of Massachusetts, whether received from sources inside or outside of Massachusetts, from the sale or exchange of capital assets or from similar transactions which are granted capital gain or loss treatment on your U.S. return, or any capital gains distributions received, must be reported on Massachusetts Schedule D. Include gains from all property, wherever located. Long-term capital gains are gains on the sale or exchange of capital assets that have been held for more than one year on the date of sale or exchange. Long-term capital losses are losses on the sale or exchange of capital assets that have been held for more than one year on the date of sale or exchange. Holding periods will be deemed not to have begun prior to January 1, 1995.

The new law defines "capital gain income" as gain from the sale or exchange of a capital asset. The definition of "capital asset" has been expanded to include: (1) an asset which is a capital asset under IRC sec. 1221, or (2) property that is used in a trade or business within the meaning of IRC sec. 1231(b) without regard to the holding period as defined in said sec. 1231(b). For a detailed explanation of the new law, see the Department's Regulation on Capital Gains and Losses at 830 CMR 62.4.1.

Tax rates for transactions completed before May 1, 2002.

Transactions completed prior to May 1, 2002 must be added together and taxed under the procedures and rates in place prior to the recent amendment to the capital gains law. Under prior law, gains on the sale of capital assets (excluding collectibles) held for more than one year but not more than two years are taxed as 5% income (Part 1, column A), those held for more than two years but not more than three years are taxed as 4% income (Part 1, column B), those held for more than three years but not more than four years are taxed as 3% income (Part 1, column C), those held for more than four years but not more than five years are taxed as 2% income (Part 1, column D), those held for more than five years but not more than six years are taxed as 1% income (Part 1, column E), and those held for more than six years are taxed as 0% income (Part 1, column F),

Tax rate for transactions completed on or after May 1, 2002.

In place of the six categories of gain based on six defined holding periods and taxed at six different rates (ranging from 5% down to 0%), recent legislation provides for a single category of long-term capital gains consisting of any gains from the sale or exchange of capital assets (except collectibles) held for more than one year. Effective for tax years beginning on or after January 1, 2002, the legislation changes the multiple tax rates for long-term capital gains to the single tax rate of 5.3%, but only for transactions completed on or after May 1, 2002 (Schedule D, Part 2).

Differences

Significant differences between the U.S. and Massachusetts capital gain provisions are:

- IRC sec. 1244 losses reported as ordinary losses on your U.S. return must be reported on Massachusetts Schedule D;
- If you made a federal election under sec. 311 of the Tax Relief Act of 1997 to recognize gain on the deemed sale of a capital asset held on January 1, 2001, Massachusetts does not follow the federal rules at sec. 311 for determining the basis of the asset. See TIR 02-3. If you sold a capital asset in 2002 for which you made a federal sec. 311 election, the Massachusetts initial basis will not be the federal basis. The Massachusetts initial basis will be determined as of the date the asset was first acquired;

► Upon the sale of stock of an S corporation, the federal basis must be modified according to Massachusetts Income Tax Regulation, 830 CMR 62.17A.1; and

► Massachusetts has adopted basis adjustment rules to take into account differences between Massachusetts and federal tax laws. For more information regarding basis adjustment rules, see TIR 88-7 or the *Guide to Filing Your 2002 Massachusetts Income Taxes*.

Net ordinary losses that are itemized deductions on U.S. Schedule A are not allowable.

Installment Sales

If a sale was treated as an installment sale for U.S. income tax purposes, it may be treated the same way on your Massachusetts income tax return. Gains from pre-1996 installment sales are classified as either capital gains or ordinary income under the Massachusetts law in effect on the date the sale or exchange took place.

Gains from pre-1996 installment sales that are classified as capital gains should be reported as 12% income on Massachusetts Schedule B. If the asset was held for more than one year when it was sold, the gain will be eligible for a 50% long-term deduction. Gains from pre-1996 installment sales that are classified as capital gains included on Massachusetts Schedule D, Parts 1 and 2, line 3 should be reported on Massachusetts Schedule D, Part 1, line 11 or Part 2, line 10 ("Long-term gains on collectibles and pre-1996 installment sales"). The amount of such gain is then reported on Massachusetts Schedule B, Part 2, line 11.

Gains from pre-1996 installment sales classified as ordinary income and that are included on Massachusetts Schedule D, Parts 1 and 2, line 3 should be reported on Massachusetts Schedule D, Part 1, line 9 or Part 2, line 8 ("Differences"). The amount of such gain classified as ordinary income should then be reported on Form 1-NR/PY, line 11 ("Other income") and included on Schedule X, line 5 and identified as "2002 gain from pre-1996 installment sale."

If you wish to report a sale on your Massachusetts return as an installment sale, you must apply in writing to the Department of Revenue's Installment Sales Unit. The Commissioner of Revenue must approve your application to report the sale on the installment basis in Massachusetts before you file your return, and appropriate security must be posted. An explanatory statement must be enclosed with each return for the life of the installment sale. For further information contact the Installment Sales Unit at (617) 887-6950.

Note: Complete Schedule D, Part 1, lines 1 through 22, columns A, B, C, D, E or F (Schedule D, pages 1 through 3) and Schedule D, Part 2, lines 1 through 21 (Schedule D, page 4) before

completing Schedule D, lines 23 and 24 (Schedule D, page 4). Also, be sure to enclose pages 1 through 4 of Schedule D with Form 1-NR/PY.

Part 1. Long-Term Capital Gains and Losses, Excluding Collectibles, Prior to May 1, 2002

Note: For Schedule D, Part 1, lines 1 through 7, 9 and 11, be sure to enter in the appropriate column amounts from the sale, exchange or involuntary conversion of Massachusetts capital assets on transactions completed prior to May 1, 2002.

1 Long-Term Capital Gains and Losses

Enter in column A the gain or loss included in U.S. Schedule D, line 8, column f, from the sale or exchange of assets held more than one year but not more than two years. Enter in column B the gain or loss included in U.S. Schedule D, line 8, column f, from the sale or exchange of assets held more than two years but not more than three years. Enter in column C (Schedule D, page 2) the gain or loss included in U.S. Schedule D, line 8, column f, from the sale or exchange of assets held more than three years but not more than four years. Enter in column D (Schedule D, page 2) the gain or loss included in U.S. Schedule D, line 8, column f, from the sale or exchange of assets held more than four years but not more than five years. Enter in column E (Schedule D, page 3) the gain or loss included in U.S. Schedule D, line 8, column f, from the sale or exchange of assets held more than five years but not more than six years. Enter in column F (Schedule D, page 3) the gain or loss included in U.S. Schedule D, line 8, column f, from the sale or exchange of assets held more than six years.

2 Additional Long-Term Capital Gains and Losses

Enter in column A the gain or loss included in U.S. Schedule D, line 9, column f, from the sale or exchange of assets held more than one year but not more than two years. Enter in column B the gain or loss included in U.S. Schedule D, line 9, column f, from the sale or exchange of assets held more than two years but not more than three years. Enter in column C (Schedule D, page 2) the gain or loss included in U.S. Schedule D, line 9, column f, from the sale or exchange of assets held more than three years but not more than four years. Enter in column D (Schedule D, page 2) the gain or loss included in U.S. Schedule D, line 9, column f, from the sale or exchange of assets held more than four years but not more than five years. Enter in column E (Schedule D, page 3) the gain or loss included in U.S. Schedule D, line 9, column f, from the sale or exchange of assets held more than five years but not more than six years. Enter in column F (Schedule D, page 3) the gain or loss included in U.S. Schedule D, line 9, column f, from the sale or exchange of assets held more than six years.

3 Gain from Sales of Business Property and Other Long-Term Gains and Losses

Enter in column A the gain or loss included in U.S. Schedule D, line 11, column f, from the sale or exchange of assets held more than one year but not more than two years. Enter in column B the gain or loss included in U.S. Schedule D, line 11, column f, from the sale or exchange of assets held more than two years but not more than three years. Enter in column C (Schedule D, page 2) the gain or loss included in U.S. Schedule D, line 11, column f, from the sale or exchange of assets held more than three years but not more than four years. Enter in column D (Schedule D, page 2) the gain or loss included in U.S. Schedule D, line 11, column f, from the sale or exchange of assets held more than four years but not more than five years. Enter in column E (Schedule D, page 3) the gain or loss included in U.S. Schedule D, line 11, column f, from the sale or exchange of assets held more than five years but not more than six years. Enter in column F (Schedule D, page 3) the gain or loss included in U.S. Schedule D, line 11, column f, from the sale or exchange of assets held more than six years.

4 Net Long-Term Gain or Loss from Partnerships, S Corporations, Estates and Trusts

If a partnership, S corporation, estate or trust does not report capital gains in a manner that allows you to determine the amounts attributable to assets held more than two years, report the amount in column A.

Enter in column A the gain or loss included in U.S. Schedule D, line 12, column f, from the sale or exchange of assets held more than one year but not more than two years. Enter in column B the gain or loss included in U.S. Schedule D, line 12, column f, from the sale or exchange of assets held more than two years but not more than three years. Enter in column C (Schedule D, page 2) the gain or loss included in U.S. Schedule D, line 12, column f, from the sale or exchange of assets held more than three years but not more than four years. Enter in column D (Schedule D, page 2) the gain or loss included in U.S. Schedule D, line 12, column f, from the sale or exchange of assets held more than four years but not more than five years. Enter in column E (Schedule D, page 3) the gain or loss included in U.S. Schedule D, line 12, column f, from the sale or exchange of assets held more than five years but not more than six years. Enter in column F (Schedule D, page 3) the gain or loss included in U.S. Schedule D, line 12, column f, from the sale or exchange of assets held more than six years.

5 Capital Gain Distributions

If a mutual fund or real estate investment trust does not report capital gain distributions by holding period or transaction date, report the amount in Schedule D, Part 2, line 5.

If you did not file U.S. Schedule D, enter in column A the capital gain distributions reported to you by a mutual fund or real estate investment trust included in the amount from U.S. Form 1040, line 13 or 1040A, line 10, from the sale or exchange of assets held more than one year but not more than two years. Enter in column B the capital gain distributions reported to you by a mutual fund or real estate investment trust included in the amount from U.S. Form 1040, line 13 or 1040A, line 10, from the sale or exchange of assets held more than two years but not more than three years. Enter in column C (Schedule D, page 2) the capital gain distributions reported to you by a mutual fund or real estate investment trust included in the amount from U.S. Form 1040, line 13 or 1040A, line 10, from the sale or exchange of assets held more than three years but not more than four years. Enter in column D (Schedule D, page 2) the capital gain distributions reported to you by a mutual fund or real estate investment trust included in the amount from U.S. Form 1040, line 13 or 1040A, line 10, from the sale or exchange of assets held more than four years but not more than five years. Enter in column E (Schedule D, page 3) the capital gain distributions reported to you by a mutual fund or real estate investment trust included in the amount from U.S. Form 1040, line 13 or 1040A, line 10, from the sale or exchange of assets held more than five years but not more than six years. Enter in column F (Schedule D, page 3) the capital gain distributions reported to you by a mutual fund or real estate investment trust included in the amount from U.S. Form 1040, line 13 or 1040A, line 10, from the sale or exchange of assets held more than six years.

If you did file a U.S. Schedule D, enter in column A the capital gain distributions reported to you by a mutual fund or real estate investment trust included in U.S. Schedule D, line 13, column f, from the sale or exchange of assets held more than one year but not more than two years. Enter in column B the capital gain distributions reported to you by a mutual fund or real estate investment trust included in U.S. Schedule D, line 13, column f, from the sale or exchange of assets held more than two years but not more than three years. Enter in column C (Schedule D, page 2) the capital gain distributions reported to you by a mutual fund or real estate investment trust included in U.S. Schedule D, line 13, column f, from the sale or exchange of assets held more than three years but not more than four years. Enter in column D (Schedule D, page 2) the capital gain distributions reported to you by a mutual fund or real estate investment trust included in U.S. Schedule D, line 13, column f, from the sale or exchange of assets held more than four years but not more than five years.

Enter in column E (Schedule D, page 3) the capital gain distributions reported to you by a mutual fund or real estate investment trust included in the amount from U.S. Schedule D, line 13, column f, from the sale or exchange of assets held more than five years but not more than six years. Enter in column F (Schedule D, page 3) the capital gain distributions reported to you by a mutual fund or real estate investment trust included in the amount from U.S. Schedule D, line 13, column f, from the sale or exchange of assets held more than six years.

6 Massachusetts Long-Term Capital Gains and Losses Included in U.S. Form 4797, Part II

Enter amounts included in U.S. Form 4797, Part II treated as capital gains or losses for Massachusetts purposes (not included in lines 1 through 5 above). These include ordinary gains from the sale of Section 1231 property, recapture amounts under Sections 1245, 1250 and 1255, Section 1244 losses and the loss on the sale, exchange or involuntary conversion of property used in a trade or business.

Enter in column A the gain or loss included in U.S. Form 4797, Part II, from the sale or exchange of assets held more than one year but not more than two years. Enter in column B the gain or loss included in U.S. Form 4797, Part II, from the sale or exchange of assets held more than two years but not more than three years. Enter in column C (Schedule D, page 2) the gain or loss included in U.S. Form 4797, Part II, from the sale or exchange of assets held more than three years but not more than four years. Enter in column D (Schedule D, page 2) the gain or loss included in U.S. Form 4797, Part II, from the sale or exchange of assets held more than four years but not more than five years. Enter in Column E (Schedule D, page 3) the gain or loss included in U.S. Form 4797, Part II, from the sale or exchange of assets held more than five years but not more than six years. Enter in column F (Schedule D, page 3) the gain or loss included in U.S. Form 4797, Part II, from the sale or exchange of assets held more than six years.

7 Carryover Losses from Previous Years

If you have a carryover loss from a prior year, enter in the applicable column in line 7 the amount of carryover losses from your 2001 Schedule D, line 22, columns A, B, C, D, E or F.

8 Subtotal Long-Term Capital Gains and Losses

Combine lines 1 through 7, column A and enter the result in line 8, column A. Combine lines 1 through 7, column B and enter the result in line 8, column B. Combine lines 1 through 7, column C (Schedule D, page 2) and enter the result in line 8, column C. Combine lines 1 through 7, column D (Schedule D, page 2) and enter the result in line 8, column D. Combine lines 1 through 7,

column E (Schedule D, page 3) and enter the result in line 8, column E. Combine lines 1 through 6, column F (Schedule D, page 3) and enter the result in line 8, column F.

9 Differences

Nonresidents. Enter in line 9 any long-term capital gains and losses included on Schedule D, Part 1, lines 1 through 7, columns A, B, C, D, E and F and Part 2, line 6 which are not Massachusetts source income and thus not taxable to you as a nonresident. A nonresident's capital gains and losses are subject to tax if the gain or loss resulted from the sale or exchange of property connected with a Massachusetts trade or business or from the ownership of real or tangible personal property located in Massachusetts.

Part-year residents. Enter in line 9 any long-term capital gains or losses included on Schedule D, Part 1, lines 1 through 7, columns A, B, C, D, E and F and Part 2, line 6 that occurred while you were legally domiciled in another state or country during the taxable year.

Nonresidents and part-year residents. Enter here any other differences between the gains or losses reportable for Massachusetts tax purposes and the gains or losses reported on U.S. Schedule D. For example:

- ▶ Gains or losses of a Massachusetts estate or trust that are taxed directly on the Massachusetts Fiduciary Return, Form 2, if you are the beneficiary and if you included the amounts on Schedule D, line 4;
- ▶ Pre-1996 installment sales classified as ordinary income for Massachusetts purposes;
- ▶ Massachusetts long-term capital gains or losses from transactions reported as installment sales for U.S. income tax purposes but not for Massachusetts; and
- ▶ Massachusetts has adopted basis adjustment rules to take into account differences between Massachusetts and federal tax laws.

Part-year residents. Do not enter gains or losses received while a resident from any grantor-type trust or from an estate or trust that is not subject to taxation in Massachusetts.

10 Adjusted Capital Gains and Losses

Exclude/subtract line 9, column A from line 8, column A and enter the result in line 10, column A. Exclude/subtract line 9, column B from line 8, column B and enter the result in line 10, column B. Exclude/subtract line 9, column C (Schedule D, page 2) from line 8, column C and enter the result in line 10, column C. Exclude/subtract line 9, column D (Schedule D, page 2) from line 8, column D and enter the result in line 10, column D. Exclude/subtract line 9, column E (Schedule D, page 3) from line 8, column E and enter the result in line 10, column E. Ex-

clude/subtract line 9, column F (Schedule D, page 3) from line 8, column F and enter the result in line 10, column F.

► If line 9 in any column is a loss, add loss as a positive number to the amount recorded in line 8 of that column. See the following examples:

Sch. D	Example A		Example B	
Line	col. A	col. B	col. A	col. B
8	\$1,000	\$1,000	\$ 700*	\$700*
9	500	300*	500	500*
10	500	1,300	1,200*	200*

*denotes loss

► If in line 9 you entered amounts which increase the amounts reported from U.S. to Massachusetts, for example, a long-term gain reported as installment sales for U.S. tax purposes but not for Massachusetts, add the amount in line 9 to the amount in line 8.

11 Long-Term Gains on Collectibles and Pre-1996 Installment Sales

Enter in line 11, column A the amount of long-term gains on collectibles and pre-1996 installment sales classified as capital gain income for Massachusetts purposes that are included in line 10, column A. Enter in line 11, column B the amount of long-term gains on collectibles and pre-1996 installment sales classified as capital gain income for Massachusetts purposes that are included in line 10, column B. Enter in line 11, column C (Schedule D, page 2) the amount of long-term gains on collectibles and pre-1996 installment sales classified as capital gain income for Massachusetts purposes that are included in line 10, column C. Enter in line 11, column D (Schedule D, page 2) the amount of long-term capital gains on collectibles and pre-1996 installment sales classified as capital gain income for Massachusetts purposes that are included in line 10, column D. Enter in line 11, column E (Schedule D, page 3) the amount of long-term capital gains on collectibles and pre-1996 installment sales classified as capital gain income for Massachusetts purposes that are included in line 10, column E. Enter in line 11, column F (Schedule D, page 3) the amount of long-term capital gains on collectibles and pre-1996 installment sales classified as capital gain income for Massachusetts purposes that are included in line 10, column F.

Long-term gains on collectibles and pre-1996 installment sales classified as capital gain income for Massachusetts purposes are taxed at the 12% rate and the total of columns A, B, C, D, E and F should be entered on Schedule B, line 9.

Collectibles are defined as any capital asset that is a collectible within the meaning of Internal Revenue Code section 408(m), as amended and in effect for the taxable year, including works of art, rugs, antiques, metals, gems, stamps, alcoholic beverages, certain coins, and any other items treated as collectibles for federal tax purposes.

12 Subtotal

Subtract line 11, column A from line 10, column A and enter the result in line 12, column A. Subtract line 11, column B from line 10, column B and enter the result in line 12, column B. Subtract line 11, column C (Schedule D, page 2) from line 10, column C and enter the result in line 12, column C. Subtract line 11, column D (Schedule D, page 2) from line 10, column D and enter the result in line 12, column D. Subtract line 11, column E (Schedule D, page 3) from line 10, column E and enter the result in line 12, column E. Subtract line 11, column F (Schedule D, page 3) from line 10, column F and enter the result in line 12, column F.

If any amount in Schedule D, Part 1, line 12, columns A, B, C, D, E or F, or Part 2, line 11 is a gain and any amount in Schedule D, Part 1, line 12, columns A, B, C, D, E or F, or Part 2, line 11 is a loss, complete the Long-Term Capital Losses Applied Against Long-Term Capital Gains Worksheet for Schedule D, Part 1, Line 13 and Schedule D, Part 2, line 12 beginning on page 48.

If any amount in Schedule D, Part 1, line 12 or Part 2, line 11 is a gain, no other amount in Schedule D, Part 1, line 12 or Part 2, line 11 is a loss, and Schedule B, line 24 is "0" or greater, omit Schedule D, Part 1, lines 13 through 17 and enter the amount from Schedule D, Part 1, line 12 in Schedule D, Part 1, line 18.

If any amount in Schedule D, Part 1, line 12 or Part 2, line 11 is a loss, no other amount in Schedule D, Part 1, line 12 or Part 2, line 11 is a gain, and Schedule B, line 24 is a positive amount, omit Schedule D, Part 1, line 13, enter the amount from Schedule D, Part 1, line 12 in Schedule D, Part 1, line 14 and complete the Long-Term Capital Losses Applied Against Short-Term Capital Gains Worksheet for Schedule B, Line 25 and Schedule D, Part 1, Line 15 and Schedule D, Part 2, line 14 on page 41.

If any amount in Schedule D, Part 1, line 12 or Part 2, line 11 is a gain, no other amount in Schedule D, Part 1, line 12 or Part 2, line 11 is a loss, and Schedule B, line 21 is a loss, omit Schedule D, Part 1, line 13, enter the amount from Schedule D, Part 1, line 12 on Schedule D, Part 1, line 14 and complete the Short-Term Capital Losses Applied Against Long-Term Capital Gains Worksheet for Schedule B, Line 22 and Schedule D, Part 1, Line 15 and Schedule D, Part 2, line 14 on page 41.

If any amount in Schedule D, Part 1, line 12 or Part 2, line 11 is a loss, no other amount in Schedule D, Part 1, line 12 or Part 2, line 11 is a gain, and Schedule B, line 24 is "0" or greater and Schedule B, line 31 is a positive amount, omit Schedule D, Part 1, lines 13 through 15, enter the amount from Schedule D, Part 1, line 12 in Schedule D, Part 1, line 16 and complete the Long-Term Capital Losses Applied Against Interest and Dividends Worksheet for Schedule B, Line 32 and Schedule D, Part 1, Line 17 and Schedule D, Part 2, line 16 on page 42.

If any amount in Schedule D, Part 1, line 12 or Part 2, line 11 is a loss, no other amount in Schedule D, Part 1, line 12 or Part 2, line 11 is a gain, and Schedule B, line 21 is "0" or less, omit Schedule D, Part 1, lines 13 through 17, enter the amount from Schedule D, Part 1, line 12 in Schedule D, Part 1, line 18, omit Schedule D, Part 1, lines 19 through 22 and Part 3, lines 23 and 24 and enter the amount from Schedule D, Part 1, line 18 in Schedule D, Part 3, line 25, and enter "0" on Form 1-NR/PY, line 28.

13 Long-Term Capital Losses Applied Against Long-Term Capital Gains

Complete the Long-Term Capital Losses Applied Against Long-Term Capital Gains Worksheet for Schedule D, Part 1, line 13 and Schedule D, Part 2, line 12 beginning on page 48 if any amount in Schedule D, Part 1, line 12, columns A, B, C, D, E or F or Schedule D, Part 2, line 11 is a gain and any amount in Schedule D, Part 1, line 12, columns A, B, C, D, E or F or Schedule D, Part 2, line 12 is a loss. When completing the worksheet, be sure to enter all losses as a positive amount.

This worksheet was designed to provide for the netting of long-term gains and losses. First, gains and losses within each holding period are netted. For example, 5% gains are applied against 5% losses, 4% gains are applied against 4% losses, 3% gains are applied against 3% losses, 2% gains are applied against 2% losses, 1% gains are applied against 1% losses and 0% gains are applied against 0% losses. Then, any net losses within a particular holding period can be applied against net gains within other holding periods, beginning with the highest tax rate and applying any remaining losses against the next highest tax rate. For example, a 3% loss is first applied to 5% gains, any remaining loss is applied to 4% gains, any remaining loss is applied against 2% gains, any remaining loss is applied against 1% gains, any loss remaining is applied against 0% gains, then any remaining loss is applied against 5.3% gains.

If you need additional information on how to net long-term gains against long-term losses, visit DOR's website at www.mass.gov/dor.

Long-Term Capital Losses Applied Against Long-Term Capital Gains Worksheet for Schedule D, Part 1, Line 13 and Schedule D, Part 2, line 12. Complete only if any amount in Schedule D, Part 1, line 12, columns A, B, C, D, E or F or Schedule D, Part 2, line 11 is a gain and any amount in Schedule D, Part 1, line 12, columns A, B, C, D, E or F or Schedule D, part 2, line 11 is a loss.

Part 1. Complete only if you have a gain in Schedule D, Part 1, line 12, column A. Otherwise, enter "0" in lines 1 through 18 and go to Part 2.

1. Enter any gain from Schedule D, Part 1, line 12, column A.
2. Enter any loss from Schedule D, Part 1, line 12, column B as positive figure. If Schedule D, Part 1, line 12, column B is "0" or greater, enter "0"
3. If line 1 is smaller than or equal to line 2, enter line 1 here. If line 1 is larger than line 2, enter line 2 here.
4. Subtract line 3 from line 1.
5. If line 4 is "0," enter "0" in lines 5 through 18 and go to Part 2. If line 4 is greater than "0," enter any loss from Schedule D, Part 1, line 12, column C as a positive figure. If Schedule D, Part 1, line 12, column C is "0" or greater, enter "0"
6. If line 4 is smaller than or equal to line 5, enter line 4 here. If line 4 is larger than line 5, enter line 5 here.
7. Subtract line 6 from line 4.
8. If line 7 is "0," enter "0" in lines 8 through 18 and go to Part 2. If line 7 is greater than "0," enter any loss from Schedule D, Part 1, line 12, column D as a positive figure. If Schedule D, Part 1, line 12, column D is "0" or greater, enter "0"
9. If line 7 is smaller than or equal to line 8, enter line 7 here. If line 7 is larger than line 8, enter line 8 here.
10. Subtract line 9 from line 7.
11. If line 10 is "0," enter "0" in lines 11 through 18 and go to Part 2. If line 10 is greater than "0," enter any loss from Schedule D, Part 1, line 12, column E as a positive figure. If Schedule D, Part 1, line 12, column E is "0" or greater, enter "0"
12. If line 10 is smaller than or equal to line 11, enter line 10 here. If line 10 is larger than line 11, enter line 11 here.
13. Subtract line 12 from line 10.
14. If line 13 is "0," enter "0" in lines 14-18 and go to Part 2. If line 13 is greater than "0," enter any loss from Schedule D, Part 1, line 12, column F as a positive figure. If Schedule D, Part 1, line 12, column F is "0" or greater, enter "0"
15. If line 13 is smaller than or equal to line 14, enter line 13 here. If line 13 is larger than line 14, enter line 14 here.
16. Subtract line 15 from line 13.
17. If line 16 is "0," enter "0" in lines 17 and 18 and go to Part 2. If line 16 is greater than "0," enter any loss from Schedule D, Part 2, line 11 as a positive figure. If Schedule D, Part 2, line 11 is "0" or greater, enter "0"
18. If line 16 is smaller than or equal to line 17, enter line 16 here. If line 16 is larger than line 17, enter line 17 here.

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Part 2. Complete only if you have a gain in Schedule D, Part 1, line 12, column B. Otherwise, enter "0" in lines 19 through 46 and go to Part 3.

19. Enter any gain from Schedule D, Part 1, line 12, column B.
20. Enter any loss from Schedule D, Part 1, line 12, column A as a positive figure. If Schedule D, Part 1, line 12, column A is "0" or greater, enter "0"
21. If line 19 is smaller than or equal to line 20, enter line 19 here. If line 19 is larger than line 20, enter line 20 here.
22. Subtract line 21 from line 19.
23. If line 22 is "0," enter "0" in lines 23 through 46 and go to Part 3. If line 22 is greater than "0," enter any loss from Schedule D, Part 1, line 12, column C as a positive figure. If Schedule D, Part 1, line 12, column C is "0" or greater, enter "0"
24. Enter the amount from line 6.
25. Subtract line 24 from line 23.
26. If line 22 is smaller than or equal to line 25, enter line 22 here. If line 22 is larger than line 25, enter line 25 here.
27. Subtract line 26 from line 22.
28. If line 27 is "0," enter "0" in lines 28 through 46 and go to Part 3. If line 27 is greater than "0," enter any loss from Schedule D, Part 1, line 12, column D as a positive figure. If Schedule D, Part 1, line 12, column D is "0" or greater, enter "0"
29. Enter the amount from line 9.
30. Subtract line 29 from line 28.
31. If line 27 is smaller than or equal to line 30, enter line 27 here. If line 27 is larger than line 30, enter line 30 here.
32. Subtract line 31 from line 27.
33. If line 32 is "0," enter "0" in lines 33 through 46 and go to Part 3. If line 32 is greater than "0," enter any loss from Schedule D, Part 1, line 12, column E as a positive figure. If Schedule D, Part 1, line 12, column E is "0" or greater, enter "0"
34. Enter the amount from line 12.
35. Subtract line 34 from line 33.
36. If line 32 is smaller than or equal to line 35, enter line 32 here. If line 32 is larger than line 35, enter line 35 here.
37. Subtract line 36 from line 32.
38. If line 37 is "0," enter "0" in lines 38 through 46 and go to Part 3. If line 37 is greater than "0," enter any loss from Schedule D, Part 1, line 12, column F as a positive figure. If Schedule D, Part 1, line 12, column F is "0" or greater, enter "0"
39. Enter the amount from line 15.
40. Subtract line 39 from line 38.
41. If line 37 is smaller than or equal to line 40, enter line 37 here. If line 37 is larger than line 40, enter line 40 here.
42. Subtract line 41 from line 37.

43. If line 42 is "0," enter "0" in lines 43 through 46 and go to Part 3. If line 42 is greater than "0," enter any loss from Schedule D, Part 2, line 11 as a positive figure. If Schedule D, Part 2, line 11 is "0" or greater, enter "0"
44. Enter the amount from line 18.
45. Subtract line 44 from line 43.
46. If line 42 is smaller than or equal to line 45, enter line 42 here. If line 42 is larger than line 45, enter line 45 here.

Part 3. Complete only if you have a gain in Schedule D, Part 1, line 12, column C. Otherwise, enter "0" in lines 47 through 76 and go to Part 4.

47. Enter any gain from Schedule D, Part 1, line 12, column C.
48. Enter any loss from Schedule D, Part 1, line 12, column A as a positive figure. If Schedule D, Part 1, line 12, column A is "0" or greater, enter "0"
49. Enter the amount from line 21.
50. Subtract line 49 from line 48.
51. If line 47 is smaller than or equal to line 50, enter line 47 here. If line 47 is larger than line 50, enter line 50 here.
52. Subtract line 51 from line 47.
53. If line 52 is "0," enter "0" in lines 53 through 76 and go to Part 4. If line 52 is greater than "0," enter any loss from Schedule D, Part 1, line 12, column B as a positive figure. If Schedule D, Part 1, line 12, column B is "0" or greater, enter "0"
54. Enter the amount from line 3.
55. Subtract line 54 from line 53.
56. If line 52 is smaller than or equal to line 55, enter line 52 here. If line 52 is larger than line 55, enter line 55 here.
57. Subtract line 56 from line 52.
58. If line 57 is "0," enter "0" in lines 58 through 76 and go to Part 4. If line 57 is greater than "0," enter any loss from Schedule D, Part 1, line 12, column D as a positive figure. If Schedule D, Part 1, line 12, column D is "0" or greater, enter "0"
59. Add line 9 and line 31.
60. Subtract line 59 from line 58.
61. If line 57 is smaller than or equal to line 60, enter line 57 here. If line 57 is larger than line 60, enter line 60 here.
62. Subtract line 61 from line 57.
63. If line 62 is "0," enter "0" in lines 63 through 76 and go to Part 4. If line 62 is greater than "0," enter any loss from Schedule D, Part 1, line 12, column E as a positive figure. If Schedule D, Part 1, line 12, column E is "0" or greater, enter "0"
64. Add line 12 and line 36.
65. Subtract line 64 from line 63.
66. If line 62 is smaller than or equal to line 65, enter line 62 here. If line 62 is larger than line 65, enter line 65 here.
67. Subtract line 66 from line 62.

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- 68.** If line 67 is "0," enter "0" in lines 68 through 76 and go to Part 4. If line 67 is greater than "0," enter any loss from Schedule D, Part 1, line 12, column F as a positive figure. If Schedule D, Part 1, line 12, column F is "0" or greater, enter "0".....
- 69.** Add line 15 and line 41.....
- 70.** Subtract line 69 from line 68.....
- 71.** If line 67 is smaller than or equal to line 70, enter line 67 here. If line 67 is larger than line 70, enter line 70 here.....
- 72.** Subtract line 71 from line 67.....
- 73.** If line 72 is "0," enter "0" in lines 73-76 and go to Part 4. If line 72 is greater than "0," enter any loss from Schedule D, Part 2, line 11 as a positive figure. If Schedule D, Part 2, line 11 is "0" or greater, enter "0".....
- 74.** Add line 18 and line 46.....
- 75.** Subtract line 74 from line 73.....
- 76.** If line 72 is smaller than or equal to line 75, enter line 72 here. If line 72 is larger than line 75, enter line 75 here.....

Part 4. Complete only if you have a gain in Schedule D, Part 1, line 12, column D. Otherwise, enter "0" in lines 77 through 106 and go to Part 5.

- 77.** Enter any gain from Schedule D, Part 1, line 12, column D.....
- 78.** Enter any loss from Schedule D, Part 1, line 12, column A as a positive figure. If Schedule D, Part 1, line 12, column A is "0" or greater, enter "0".....
- 79.** Add line 21 and line 51.....
- 80.** Subtract line 79 from line 78.....
- 81.** If line 77 is smaller than or equal to line 80, enter line 77 here. If line 77 is larger than line 80, enter line 80 here.....
- 82.** Subtract line 81 from line 77.....
- 83.** If line 82 is "0," enter "0" in lines 83 through 106 and go to Part 5. If line 82 is greater than "0," enter any loss from Schedule D, Part 1, line 12, column B as a positive figure. If Schedule D, Part 1, line 12, column B is "0" or greater, enter "0".....
- 84.** Add line 3 and line 56.....
- 85.** Subtract line 84 from line 83.....
- 86.** If line 82 is smaller than or equal to line 85, enter line 82 here. If line 82 is larger than line 85, enter line 85 here.....
- 87.** Subtract line 86 from line 82.....
- 88.** If line 87 is "0," enter "0" in lines 88 through 106 and go to Part 5. If line 87 is greater than "0," enter any loss from Schedule D, Part 1, line 12, column C as a positive figure. If Schedule D, Part 1, line 12, column C is "0" or greater, enter "0".....
- 89.** Add line 6 and line 26.....
- 90.** Subtract line 89 from line 88.....
- 91.** If line 87 is smaller than or equal to line 90, enter line 87 here. If line 87 is larger than line 90, enter line 90 here.....
- 92.** Subtract line 91 from line 87.....

- 93.** If line 92 is "0," enter "0" in lines 93 through 106 and go to Part 5. If line 92 is greater than "0," enter any loss from Schedule D, Part 1, line 12, column E as a positive figure. If Schedule D, Part 1, line 12, column E is "0" or greater, enter "0".....
- 94.** Add lines 12, 36 and 66.....
- 95.** Subtract line 94 from line 93.....
- 96.** If line 92 is smaller than or equal to line 95, enter line 92 here. If line 92 is larger than line 95, enter line 95 here.....
- 97.** Subtract line 96 from line 92.....
- 98.** If line 97 is "0," enter "0" in lines 98 through 106 and go to Part 5. If line 97 is greater than "0," enter any loss from Schedule D, Part 1, line 12, column F as a positive figure. If Schedule D, Part 1, line 12, column F is "0" or greater, enter "0".....
- 99.** Add lines 15, 41 and 71.....
- 100.** Subtract line 99 from line 98.....
- 101.** If line 97 is smaller than or equal to line 100, enter line 97 here. If line 97 is larger than line 100, enter line 100 here.....
- 102.** Subtract line 101 from line 97.....
- 103.** If line 102 is "0," enter "0" in lines 103-106 and go to Part 5. If line 102 is greater than "0," enter any loss from Schedule D, Part 2, line 11 as a positive figure. If Schedule D, Part 2, line 11 is "0" or greater, enter "0".....
- 104.** Add lines 18, 46 and 76.....
- 105.** Subtract line 104 from line 103.....
- 106.** If line 102 is smaller than or equal to line 105, enter line 102 here. If line 102 is larger than line 105, enter line 105 here.....

Part 5. Complete only if you have a gain in Schedule D, Part 1, line 12, column E. Otherwise, enter "0" in lines 107 through 136 and go to Part 6.

- 107.** Enter any gain from Schedule D, Part 1, line 12, column E.....
- 108.** Enter any loss from Schedule D, Part 1, line 12, column A as a positive figure. If Schedule D, Part 1, line 12, column A is "0" or greater, enter "0".....
- 109.** Add lines 21, 51 and 81.....
- 110.** Subtract line 109 from line 108.....
- 111.** If line 107 is smaller than or equal to line 110, enter line 107 here. If line 107 is larger than line 110, enter line 110 here.....
- 112.** Subtract line 111 from line 107.....
- 113.** If line 112 is "0," enter "0" in lines 113 through 136 and go to Part 6. If line 112 is greater than "0," enter any loss from Schedule D, Part 1, line 12, column B as a positive figure. If Schedule D, Part 1, line 12, column B is "0" or greater, enter "0".....
- 114.** Add lines 3, 56 and 86.....
- 115.** Subtract line 114 from line 113.....
- 116.** If line 112 is smaller than or equal to line 115, enter line 112 here. If line 112 is larger than line 115, enter line 115 here.....
- 117.** Subtract line 116 from line 112.....

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118. If line 117 is "0," enter "0" in lines 118 through 136 and go to Part 6. If line 117 is greater than "0," enter any loss from Schedule D, Part 1, line 12, column C as a positive figure. If Schedule D, Part 1, line 12, column C is "0" or greater, enter "0"

119. Add lines 6, 26 and 91

120. Subtract line 119 from line 118

121. If line 117 is smaller than or equal to line 120, enter line 117 here. If line 117 is larger than line 120, enter line 120 here

122. Subtract line 121 from line 117

123. If line 122 is "0," enter "0" in lines 123 through 136 and go to Part 6. If line 122 is greater than "0," enter any loss from Schedule D, Part 1, line 12, column D as a positive figure. If Schedule D, Part 1, line 12, column D is "0" or greater, enter "0"

124. Add lines 9, 31 and 61

125. Subtract line 124 from line 123

126. If line 122 is smaller than or equal to line 125, enter line 122 here. If line 122 is larger than line 125, enter line 125 here

127. Subtract line 126 from line 122

128. If line 127 is "0," enter "0" in lines 128 through 136 and go to Part 6. If line 127 is greater than "0," enter any loss from Schedule D, Part 1, line 12, column F as a positive figure. If Schedule D, Part 1, line 12, column F is "0" or greater, enter "0"

129. Add lines 15, 41, 71 and 101

130. Subtract line 129 from line 128

131. If line 127 is smaller than or equal to line 130, enter line 127 here. If line 127 is larger than line 130, enter line 130 here

132. Subtract line 131 from line 127

133. If line 132 is "0," enter "0" in lines 133-136 and go to Part 6. If line 132 is greater than "0," enter any loss from Schedule D, Part 2, line 11 as a positive figure. If Schedule D, Part 2, line 11 is "0" or greater, enter "0"

134. Add lines 18, 46, 76 and 106

135. Subtract line 134 from line 133

136. If line 132 is smaller than or equal to line 135, enter line 132 here. If line 132 is larger than line 135, enter line 135 here

Part 6. Complete only if you have a gain in Schedule D, Part 1, line 12, column F. Otherwise, enter "0" in lines 137 through 166 and go to Part 7.

137. Enter any gain from Schedule D, Part 1, line 12, column F

138. Enter any loss from Schedule D, Part 1, line 12, column A as a positive figure. If Schedule D, Part 1, line 12, column A is "0" or greater, enter "0"

139. Add lines 21, 51, 81 and 111

140. Subtract line 139 from line 138

141. If line 137 is smaller than or equal to line 140, enter line 137 here. If line 137 is larger than line 140, enter line 140 here

142. Subtract line 141 from line 137

143. If line 142 is "0," enter "0" in lines 143 through 166 and go to Part 7. If line 142 is greater than "0," enter any loss from Schedule D, Part 1, line 12, column B as a positive figure.

If Schedule D, Part 1, line 12, column B is "0" or greater, enter "0"

144. Add lines 3, 56, 86 and 116

145. Subtract line 144 from line 143

146. If line 142 is smaller than or equal to line 145, enter line 142 here. If line 142 is larger than line 145, enter line 145 here

147. Subtract line 146 from line 142

148. If line 147 is "0," enter "0" in lines 148 through 166 and go to Part 7. If line 147 is greater than "0," enter any loss from Schedule D, Part 1, line 12, column C as a positive figure. If Schedule D, Part 1, line 12, column C is "0" or greater, enter "0"

149. Add lines 6, 26, 91 and 121

150. Subtract line 149 from line 148

151. If line 147 is smaller than or equal to line 150, enter line 147 here. If line 147 is larger than line 150, enter line 150 here

152. Subtract line 151 from line 147

153. If line 152 is "0," enter "0" in lines 153 through 166 and go to Part 7. If line 152 is greater than "0," enter any loss from Schedule D, Part 1, line 12, column D as a positive figure. If Schedule D, Part 1, line 12, column D is "0" or greater, enter "0"

154. Add lines 9, 31, 61 and 126

155. Subtract line 154 from line 153

156. If line 152 is smaller than or equal to line 155, enter line 152 here. If line 152 is larger than line 155, enter line 155 here

157. Subtract line 156 from line 152

158. If line 157 is "0," enter "0" in lines 158 through 166 and go to Part 7. If line 157 is greater than "0," enter any loss from Schedule D, Part 1, line 12, column E as a positive figure. If Schedule D, Part 1, line 12, column E is "0" or greater, enter "0"

159. Add lines 12, 36, 66 and 96

160. Subtract line 159 from line 158

161. If line 157 is smaller than or equal to line 160, enter line 157 here. If line 157 is larger than line 160, enter line 160 here

162. Subtract line 161 from line 157

163. If line 162 is "0," enter "0" in lines 163-166 and go to Part 7. If line 162 is greater than "0," enter any loss from Schedule D, Part 2, line 11 as a positive figure. If Schedule D, Part 2, line 11 is "0" or greater, enter "0"

164. Add lines 18, 46, 76, 106 and 136

165. Subtract line 164 from line 163

166. If line 162 is smaller than or equal to line 165, enter line 162 here. If line 162 is larger than line 165, enter line 165 here

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Part 7. Complete only if you have a gain in Schedule D, Part 2, line 11. Otherwise, enter "0" in lines 167 through 196 and go to Part 8.

- 167.** Enter any gain from Schedule D, Part 2, line 11 _____
- 168.** Enter any loss from Schedule D, Part 1, line 12, column A as a positive figure. If Schedule D, Part 1, line 12, column A is "0" or greater, enter "0" _____
- 169.** Add lines 21, 51, 81, 111 and 141 _____
- 170.** Subtract line 169 from line 168 _____
- 171.** If line 167 is smaller than or equal to line 170, enter line 167 here. If line 167 is larger than line 170, enter line 170 here _____
- 172.** Subtract line 171 from line 167 _____
- 173.** If line 172 is "0," enter "0" in lines 173 through 196 and go to Part 8. If line 172 is greater than "0," enter any loss from Schedule D, Part 1, line 12, column B as a positive figure. If Schedule D, Part 1, line 12, column B is "0" or greater, enter "0" _____
- 174.** Add lines 3, 56, 86, 116 and 146 _____
- 175.** Subtract line 174 from line 173 _____
- 176.** If line 172 is smaller than or equal to line 175, enter line 172 here. If line 172 is larger than line 175, enter line 175 here _____
- 177.** Subtract line 176 from line 172 _____
- 178.** If line 177 is "0," enter "0" in lines 178 through 196 and go to Part 8. If line 177 is greater than "0," enter any loss from Schedule D, Part 1, line 12, column C as a positive figure. If Schedule D, Part 1, line 12, column C is "0" or greater, enter "0" _____
- 179.** Add lines 6, 26, 91, 121 and 151 _____
- 180.** Subtract line 179 from line 178 _____
- 181.** If line 177 is smaller than or equal to line 180, enter line 177 here. If line 177 is larger than line 180, enter line 180 here _____
- 182.** Subtract line 181 from line 177 _____
- 183.** If line 182 is "0," enter "0" in lines 183 through 196 and go to Part 8. If line 182 is greater than "0," enter any loss from Schedule D, Part 1, line 12, column D as a positive figure. If Schedule D, Part 1, line 12, column D is "0" or greater, enter "0" _____
- 184.** Add lines 9, 31, 61, 126 and 156 _____
- 185.** Subtract line 184 from line 183 _____
- 186.** If line 182 is smaller than or equal to line 185, enter line 182 here. If line 182 is larger than line 185, enter line 185 here _____
- 187.** Subtract line 186 from line 182 _____
- 188.** If line 187 is "0," enter "0" in lines 188 through 196 and go to Part 8. If line 187 is greater than "0," enter any loss from Schedule D, Part 1, line 12, column E as a positive figure. If Schedule D, Part 1, line 12, column E is "0" or greater, enter "0" _____
- 189.** Add lines 12, 36, 66, 96 and 161 _____
- 190.** Subtract line 189 from line 188 _____
- 191.** If line 187 is smaller than or equal to line 190, enter line 187 here. If line 187 is larger than line 190, enter line 190 here _____

- 192.** Subtract line 191 from line 187 _____
- 193.** If line 192 is "0," enter "0" in lines 193 through 196 and go to Part 8. If line 192 is greater than "0," enter any loss from Schedule D, Part 1, line 12, column F as a positive figure. If Schedule D, Part 1, line 12, column F is "0" or greater, enter "0" _____
- 194.** Add lines 15, 41, 71, 101 and 131 _____
- 195.** Subtract line 194 from line 193 _____
- 196.** If line 192 is smaller than or equal to line 195, enter line 192 here. If line 192 is larger than line 195, enter line 195 here _____

Part 8. Complete only if you have completed Part 1, 2, 3, 4, 5, 6 or 7.

- 197.** If Schedule D, Part 1, line 12, column A is a gain, add lines 3, 6, 9, 12, 15 and 18. Enter result here and in Schedule D, Part 1, line 13, column A as a negative amount. This is the amount of any long-term losses applied to offset long-term capital gains taxed at 5%. If Schedule D, Part 1, line 12, column A is a loss, add lines 21, 51, 81, 111, 141 and 171. Enter result here and in Schedule D, Part 1, line 13, column A as a positive amount. This is the amount of long-term losses from assets held for more than one year but not more than two years applied to offset other long-term capital gains _____
- 198.** If Schedule D, Part 1, line 12, column B is a gain, add lines 21, 26, 31, 36, 41 and 46. Enter result here and in Schedule D, Part 1, line 13, column B as a negative amount. This is the amount of any long-term losses applied to offset long-term capital gains taxed at 4%. If Schedule D, Part 1, line 12, column B is a loss, add lines 3, 56, 86, 116, 146 and 176. Enter result here and in Schedule D, Part 1, line 13, column B as a positive amount. This is the amount of long-term losses from assets held for more than two years but not more than three years applied to offset other long-term capital gains _____
- 199.** If Schedule D, Part 1, line 12, column C is a gain, add lines 51, 56, 61, 66, 71 and 76. Enter result here and in Schedule D, Part 1, line 13, column C as a negative amount. This is the amount of any long-term losses applied to offset long-term capital gains taxed at 3%. If Schedule D, Part 1, line 12, column C is a loss, add lines 6, 26, 91, 121, 151 and 181. Enter result here and in Schedule D, Part 1, line 13, column C as a positive amount. This is the amount of long-term losses from assets held for more than three years but not more than four years applied to offset other long-term capital gains _____
- 200.** If Schedule D, Part 1, line 12, column D is a gain, add lines 81, 86, 91, 96, 101 and 106. Enter result here and in Schedule D, Part 1, line 13, column D as a negative amount. This is the amount of any long-term losses applied to offset long-term capital gains taxed at 2%. If Schedule D, Part 1, line 12, column D is a loss, add lines 9, 31, 61, 126, 156 and 186. Enter result here and in Schedule D, Part 1, line 13, column D as a positive amount. This is the amount of long-term losses from assets held for more than four years but not more than five years applied to offset other long-term capital gains _____

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201. If Schedule D, Part 1, line 12, column E is a gain, add lines 111, 116, 121, 126, 131 and 136. Enter result here and in Schedule D, Part 1, line 13, column E as a negative amount. This is the amount of any long-term losses applied to offset long-term capital gains taxed at 1%. If Schedule D, Part 1, line 12, column E is a loss, add lines 12, 36, 66, 96, 161 and 191. Enter result here and in Schedule D, Part 1, line 13, column E as a positive amount. This is the amount of long-term losses from assets held for more than five years but not more than six years applied to offset other long-term capital gains

202. If Schedule D, Part 1, line 12, column F is a gain, add lines 141, 146, 151, 156, 161 and 166. Enter result here and in Schedule D, Part 1, line 13, column F as a negative amount. This is the amount of any long-term losses applied to offset long-term capital gains taxed at 0%. If Schedule D, Part 1, line 12, column F is a loss, add lines 15, 41, 71, 101, 131 and 196. Enter result here and in Schedule D, Part 1, line 13, column F as a positive amount. This is the amount of long-term losses from assets held for more than six years applied to offset other long-term capital gains

203. If Schedule D, Part 2, line 11 is a gain, add lines 171, 176, 181, 186, 191 and 196. Enter result here and in Schedule D, Part 2, line 12 as a negative amount. This is the amount of any long-term losses applied to offset long-term capital gains taxed at 5.3%. If Schedule D, Part 2, line 11 is a loss, add lines 18, 46, 76, 106, 136 and 166. Enter result here and in Schedule D, Part 2, line 12 as a positive amount. This is the amount of long-term losses from transactions completed after April 30, 2002 applied to offset other long-term capital gains

14 Subtotal

Combine line 12, column A with line 13, column A and enter the result in line 14, column A. Combine line 12, column B with line 13, column B and enter the result in line 14, column B. Combine line 12, column C with line 13, column C and enter the result in line 14, column C. Combine line 12, column D with line 13, column D and enter the result in line 14, column D. Combine line 12, column E with line 13, column E and enter the result in line 14, column E. Combine line 12, column F with line 13, column F and enter the result in line 14, column F.

Note: After completing Schedule D, line 13, all amounts in Schedule D, Part 1, line 14, columns A, B, C, D, E and F should be either "0" and/or gain(s) or "0" and/or loss(es). If all amounts in Schedule D, Part 1, line 14 are "0," omit Schedule D, Part 1, lines 15 through 17, enter "0" in Schedule D, Part 1, line 18, omit the remainder of Schedule D and enter "0" in Form 1-NR/PY, line 28.

If any amount in any column in Schedule D, Part 1, line 14 is "0," enter "0" in lines 15 through 22 for that column.

If any amount in Schedule D, Part 1, line 14 or Part 2, line 13 is a loss, no other amount in Schedule D, Part 1, line 14 or Part 2, line 13 is a gain, and Schedule B, line 24 is a positive amount, complete the Long-Term Capital Losses Applied Against Short-

Term Capital Gains Worksheet for Schedule B, Line 25 and Schedule D, Part 1, Line 15 and Schedule D, Part 2, line 14 on page 41.

If any amount in Schedule D, Part 1, line 14 or Part 2, line 13 is a gain, no other amount in Schedule D, Part 1, line 14 or Part 2, line 13 is a loss, and Schedule B, line 21 is a loss, complete the Short-Term Capital Losses Applied Against Long-Term Capital Gains Worksheet for Schedule B, Line 22 and Schedule D, Part 1, Line 15 and Schedule D, Part 2, line 14 on page 41.

If any amount in Schedule D, Part 1, line 14 or Part 2, line 13 is a loss and Schedule B, line 24 is "0" or greater and Schedule B, line 31 is a positive amount, omit Schedule D, Part 1, line 15, enter the amount from Schedule D, Part 1, line 14 in Schedule D, Part 1, line 16 and complete the Long-Term Capital Losses Applied Against Interest and Dividends Worksheet for Schedule B, Line 32 and Schedule D, Part 1, Line 17 and Schedule D, Part 2, line 16 on page 42.

If any amount in Schedule D, Part 1, line 14 or Part 2, line 13 is a loss, no other amount in Schedule D, Part 1, line 14 or Part 2, line 13 is a gain, and Schedule B, line 21 is "0" or less, omit Schedule D, Part 1, lines 15 through 17, enter the amount from Schedule D, Part 1, line 14 in Schedule D, Part 1, line 18, omit Schedule D, Part 1, lines 19 through 22 and Part 3, lines 23 and 24 and enter the amount from Schedule D, Part 1, line 18 in Schedule D, Part 3, line 25, and enter "0" on Form 1-NR/PY, line 28.

15 Capital Losses Applied Against Capital Gains

If Schedule B, line 24 is a positive amount and any amount in Schedule D, Part 1, line 14, column A, B, C, D, E or F or Schedule D, Part 2, line 13 is a loss, complete the Long-Term Capital Losses Applied Against Short-Term Capital Gains Worksheet for Schedule B, Line 25 and Schedule D, Part 1, Line 15 and Part 2, line 14 on page 41. When completing the worksheet, be sure to enter all losses as a positive amount.

If Schedule B, line 21 is a loss and any amount in Schedule D, Part 1, line 14, columns A, B, C, D, E or F and Schedule D, Part 2, line 13 is a positive amount, complete the Short-Term Capital Losses Applied Against Long-Term Capital Gains Worksheet for Schedule B, Line 22 and Schedule D, Part 1, Line 15 and Part 2, Line 14 on page 41. When completing the worksheet, be sure to enter all losses as a positive amount.

16 Subtotal

If line 14 is greater than "0," subtract line 15 from line 14. If line 14 is less than "0," combine lines 14 and 15.

If any amount in Schedule D, Part 1, line 16 or Part 2, line 15 is a loss and Schedule B, line 24 is "0" or greater and Schedule B, line 31 is a positive amount, complete the Long-Term Capital

Losses Applied Against Interest and Dividends Worksheet for Schedule B, Line 32 and Schedule D, Part 1, Line 17 and Schedule D, Part 2, line 16 on page 42.

If any amount in Schedule D, Part 1, line 16 or Part 2, line 15 is a loss, no other amount in Schedule D, Part 1, line 16 or Part 2, line 15 is a gain, and Schedule B, line 21 is "0" or less, omit Schedule D, Part 1, line 17, enter the amount from Schedule D, Part 1, line 16 in Schedule D, Part 1, line 18, omit Schedule D, Part 1, lines 19 through 22 and Part 3, lines 23 and 24 and enter the amount from Schedule D, Part 1, line 18 in Schedule D, Part 3, line 25, and enter "0" on Form 1-NR/PY, line 28.

If any amount in any column in Schedule D, Part 1, line 16 is "0," enter "0" in lines 17 through 22 for that column.

17 Long-Term Capital Losses Applied Against Interest and Dividends

If any amount in Schedule D, Part 1, line 16 or Schedule D, Part 2, line 15 is a loss, and Schedule B, line 24 is "0" or greater and Schedule B, line 31 is a positive amount, complete the Long-Term Capital Losses Applied Against Interest and Dividends Worksheet for Schedule B, Line 32 and Schedule D, Line 17 on page 42.

18 Subtotal

Combine line 16 and line 17. If any amount in any column in Schedule D, line 18 is "0," enter "0" in lines 19 through 22 for that column. If any amount in Schedule D is a loss, omit Schedule D, lines 19 through 23.

19 Allowable Deductions From Your Trade or Business

Generally, taxpayers may not use excess 5.3% trade or business deductions to offset other income. However, where the taxpayer files a Massachusetts Schedule C or Schedule E, Massachusetts law allows such offsets if the following requirements are met: the excess 5.3% deductions must be adjusted gross income deductions allowed under MGL Ch. 62, sec. 2(d); and these excess deductions may only be used to offset other income which is effectively connected with the active conduct of a trade of business or any other income allowed under IRC, sec. 469(d)(1)(B) to offset losses from passive activities. Enclose Schedule C-2 with your return.

Enter in line 19, column A the amount from Schedule C-2, line 15. Enter in line 19, column B the amount from Schedule C-2, line 17. Enter in line 19, column C the amount from Schedule C-2, line 19. Enter in line 19, column D the amount from Schedule C-2, line 21. Enter in line 19, column E the amount from Schedule C-2, line 23. Enter in line 19, column F the amount from Schedule C-2, line 25.

20 Subtotal

Subtract line 19, column A from line 18, column A and enter the result in line 20, column A. Not less than "0." Subtract line 19, column B from line 18, column B and enter the result in line 20, column B. Not less than "0." Subtract line 19, column C from line 18, column C and enter the result in line 20, column C. Not less than "0." Subtract line 19, column D from line 18, column D and enter the result in line 20, column D. Not less than "0." Subtract line 19, column E from line 18, line E and enter the result in line 20, column E. Not less than "0." Subtract line 19, column F from line 18, line F and enter the result in line 20, column F. Not less than "0."

If all amounts in Schedule D, line 20 are "0," omit Schedule D, lines 21 through 24 and enter "0" in Form 1-NR/PY, line 28.

21 Excess Exemptions

Enter in line 21, column A the amount from line 8 of the Excess Exemption Worksheet on page 23. Enter in line 21, column B the amount from line 11 of the Excess Exemption Worksheet on page 23. Enter in line 21, column C (Schedule D, page 2) the amount from line 14 of the Excess Exemption Worksheet on page 23. Enter in line 21, column D the amount from line 17 of the Excess Exemption Worksheet on page 23. Enter in line 21, column E (Schedule D, page 3) the amount from line 20 of the Excess Exemption Worksheet on page 23. Enter in line 21, column F (Schedule D, page 3) the amount from line 23 of the Excess Exemption Worksheet on page 23.

22 Taxable Long-Term Capital Gains

Subtract line 21, column A from line 20 column A and enter the result in line 22, column A and on Schedule D, page 4, line 23A, column 1. Not less than "0." Subtract line 21, column B from line 20, column B and enter the result in line 22, column B and on Schedule D, page 4, line 23B, column 1. Not less than "0." Subtract line 21, column C from line 20, column C and enter the result in line 22, column C and on Schedule D, page 4, line 23C column 1. Not less than "0." Subtract line 21, column D from line 20, column D and enter the result in line 22, column D and on Schedule D, page 4, line 23D column 1. Not less than "0." Subtract line 21, column E from line 20 column E and enter the result in line 22, column E and on Schedule D, page 4, line 23E, column 1. Not less than "0." Subtract line 21, column F from line 20, column F and enter the result in line 22, column F and on Schedule D, page 4, line 23F column 1. Not less than "0."

If all amounts in Schedule D, line 22 are "0," omit Schedule D, lines 23 and 24 and enter "0" in Form 1-NR/PY, line 28.

Part 2. Long-Term Capital Gains and Losses, Excluding Collectibles, After April 30, 2002

Note: For Schedule D, Part 2, lines 1 through 6, 8 and 10, be sure to enter in the appropriate column amounts from the sale, exchange or involuntary conversion of Massachusetts capital assets on transactions completed after April 30, 2002.

1 Long-Term Capital Gains and Losses

Enter in line 1 the gain or loss included in U.S. Schedule D, line 8, column f, from the sale or exchange of assets occurring after April 30, 2002.

2 Additional Long-Term Capital Gains and Losses

Enter in line 2 the gain or loss included in U.S. Schedule D, line 9, column f, from the sale or exchange of assets occurring after April 30, 2002.

3 Gain from Sales of Business Property and Other Long-Term Gains and Losses

Enter in line 3 the gain or loss included in U.S. Schedule D, line 11, column f, from the sale or exchange of assets occurring after April 30, 2002.

4 Net Long-Term Gain or Loss from Partnerships, S Corporations, Estates and Trusts

Enter in line 4 the gain or loss included in U.S. Schedule D, line 12, column f, from the sale or exchange of assets occurring after April 30, 2002.

5 Capital Gain Distributions

If you did not file U.S. Schedule D, enter in line 5 the capital gain distributions reported to you by a mutual fund or real estate investment trust included in the amount from U.S. Form 1040, line 13 or 1040A, line 10, from the sale or exchange of assets occurring after April 30, 2002.

If you did file a U.S. Schedule D, enter in line 5 the capital gain distributions reported to you by a mutual fund or real estate investment trust included in U.S. Schedule D, line 13, column f, from the sale or exchange of assets occurring after April 30, 2002.

6 Massachusetts Long-Term Capital Gains and Losses Included in U.S. Form 4797, Part II

Enter amounts included in U.S. Form 4797, Part II treated as capital gains or losses for Massachusetts purposes (not included in lines 1 through 5 above). These include ordinary gains from the sale of Section 1231 property, recapture amounts under Sections

1245, 1250 and 1255, Section 1244 losses and the loss on the sale, exchange or involuntary conversion of property used in a trade or business.

Enter in line 6 the gain or loss included in U.S. Form 4797, Part II, from the sale or exchange of assets occurring after April 30, 2002.

8 Differences

Enter any differences between the gains or losses reportable for Massachusetts tax purposes and the U.S. gains or losses reported in Massachusetts Schedule D, lines 1 through 7. See Schedule D, Part 1, line 9 instructions on page 46 for a list of possible differences.

9 Adjusted Capital Gains and Losses

Exclude/subtract line 8 from line 7 and enter the result in line 9.

► If line 8 is a loss, add loss as a positive number to the amount recorded in line 7. See the following examples:

Sch. D

Line	A	B	C	D
7	\$1,000	\$1,000	\$ 700*	\$700*
8	500	300*	500	500*
9	500	1,300	1,200*	200*

*denotes loss

► If in line 8 you entered amounts which increase the amounts reported from U.S. to Massachusetts, for example, a long-term gain reported as installment sales for U.S. tax purposes but not for Massachusetts, add the amount in line 8 to the amount in line 7.

10 Long-Term Gains on Collectibles and Pre-1996 Installment Sales

Enter in line 11 A the amount of long-term gains on collectibles and pre-1996 installment sales classified as capital gain income for Massachusetts purposes that are included in line 10.

Long-term gains on collectibles and pre-1996 installment sales classified as capital gain income for Massachusetts purposes are taxed at the 12% rate and the amount in line 11 should be entered on Schedule B, line 11.

Collectibles are defined as any capital asset that is a collectible within the meaning of Internal Revenue Code section 408(m), as amended and in effect for the taxable year, including works of art, rugs, antiques, metals, gems, stamps, alcoholic beverages, certain coins, and any other items treated as collectibles for federal tax purposes.

11 Subtotal

Subtract line 11 from line 10 and enter the result in line 12.

If any amount in Schedule D, Part 2, line 11 or Part 1, line 12, columns A, B, C, D, E or F is a gain and any amount in Schedule D, Part 2, line 11 or Part 1, line 12, columns A, B, C, D, E or F is a loss, complete the Long-Term Capital Losses Applied Against Long-Term Capital Gains Worksheet for Schedule D, Part 1, Line 13 and Schedule D, Part 2, line 12 beginning on page 48.

If any amount in Schedule D, Part 2, line 11 or Part 1, line 12 is a gain, no other amount in Schedule D, Part 2, line 11 or Part 1, line 12 is a loss, and Schedule B, line 24 is "0" or greater, omit Schedule D, Part 2, lines 12 through 16 and enter the amount from Schedule D, Part 2, line 11 in Schedule D, Part 2, line 17.

If any amount in Schedule D, Part 2, line 11 or Part 1, line 12 is a loss, no other amount in Schedule D, Part 2, line 11 or Part 1, line 12 is a gain, and Schedule B, line 24 is a positive amount, omit Schedule D, Part 2, line 12, enter the amount from Schedule D, Part 2, line 11 in Schedule D, Part 2, line 13 and complete the Long-Term Capital Losses Applied Against Short-Term Capital Gains Worksheet for Schedule B, Line 25 and Schedule D, Part 1, Line 15 and Schedule D, Part 2, line 14 on page 41.

If any amount in Schedule D, Part 2, line 11 or Part 1, line 12 is a gain, no other amount in Schedule D, Part 2, line 11 or Part 1, line 12 is a loss, and Schedule B, line 21 is a loss, omit Schedule D, Part 2, line 12, enter the amount from Schedule D, Part 2, line 11 on Schedule D, Part 2, line 13 and complete the Short-Term Capital Losses Applied Against Long-Term Capital Gains Worksheet for Schedule B, Line 22 and Schedule D, Part 1, Line 15 and Schedule D, Part 2, line 14 on page 41.

If any amount in Schedule D, Part 2, line 11 or Part 1, line 12 is a loss and Schedule B, line 24 is "0" or greater and Schedule B, line 31 is a positive amount, omit Schedule D, Part 2, lines 12 through 14, enter the amount from Schedule D, Part 2, line 11 in Schedule D, Part 2, line 15 and complete the Long-Term Capital Losses Applied Against Interest and Dividends Worksheet for Schedule B, Line 32 and Schedule D, Part 1, Line 17 and Schedule D, Part 2, line 16 on page 42.

If any amount in Schedule D, Part 2, line 11 or Part 1, line 12 is a loss, no other amount in Schedule D, Part 2, line 11 or Part 1, line 12 is a gain, and Schedule B, line 21 is "0" or less, omit Schedule D, Part 2, lines 12 through 16, enter the amount from Schedule D, Part 2, line 11 in Schedule D, Part 1, line 17, omit Schedule D, Part 2, lines 18 through 21 and Part 3, lines 23 and 24 and enter the amount from Schedule D, Part 2, line 17 in Schedule D, Part 3, line 25, and enter "0" on Form 1-NR/PY, line 28.

12 Long-Term Capital Losses Applied Against Long-Term Capital Gains

Complete the Long-Term Capital Losses Applied Against Long-Term Capital Gains Worksheet for Schedule D, Line 13 beginning on page 48 only if any amount in Schedule D, Part 1, line 12, columns A, B, C, D, E or F or Schedule D, Part 2, line 12 is a gain and any amount in Schedule D, Part 1, line 12, columns A, B, C, D, E or F or Schedule D, Part 2, line 12 is a loss. When completing the worksheet, be sure to enter all losses as a positive amount.

13 Subtotal

Combine line 11 with line 12 and enter the result in line 13.

Note: After completing Schedule D, line 12, all amounts in Schedule D, Part 1, line 14, columns A, B, C, D, E and F and Schedule D, Part 2, line 13 should be either "0" and/or gain(s) or "0" and/or loss(es). If all amounts in Schedule D, Part 1, line 14 and Schedule D, Part 2, line 13 are "0," omit Schedule D, Part 2, lines 14 through 16, enter "0" in Schedule D, Part 2, line 17, omit the remainder of Schedule D and enter "0" in Form 1-NR/PY, line 28.

If the amount in Schedule D, Part 2, line 13 is "0," enter "0" in lines 14 through 24.

If any amount in Schedule D, Part 2, line 13 or Part 1, line 14 is a loss, no other amount in Schedule D, Part 2, line 13 or Part 1, line 14 is a gain, and Schedule B, line 24 is a positive amount, complete the Long-Term Capital Losses Applied Against Short-Term Capital Gains Worksheet for Schedule B, Line 25 and Schedule D, Part 1, Line 15 and Schedule D, Part 2, line 14 on page 41.

If any amount in Schedule D, Part 2, line 13 or Part 1, line 14 is a gain, no other amount in Schedule D, Part 2, line 13 or Part 1, line 14 is a loss, and Schedule B, line 21 is a loss, complete the Short-Term Capital Losses Applied Against Long-Term Capital Gains Worksheet for Schedule B, Line 22 and Schedule D, Part 1, Line 15 and Schedule D, Part 2, line 14 on page 41.

If any amount in Schedule D, Part 2, line 13 or Part 1, line 14 is a loss and Schedule B, line 24 is "0" or greater and Schedule B, line 31 is a positive amount, omit Schedule D, Part 2, line 14, enter the amount from Schedule D, Part 2, line 13 in Schedule D, Part 2, line 15 and complete the Long-Term Capital Losses Applied Against Interest and Dividends Worksheet for Schedule B, Line 32 and Schedule D, Part 1, Line 17 and Schedule D, Part 2, line 16 on page 42.

If any amount in Schedule D, Part 2, line 13 or Part 1, line 14 is a loss, no other amount in Schedule D, Part 2, line 13 or Part 1, line 14 is a gain, and Schedule B, line 21 is "0" or less, omit Schedule D, Part 2, lines 14 through 16, enter the amount from Schedule D, Part 2, line 13 in Schedule D, Part 2, line 17, omit Schedule D, Part 2, lines 18 through 21 and Part 3, lines 23 and 24 and enter the amount from Schedule D, Part 2, line 17 in Schedule D, Part 3, line 25, and enter "0" on Form 1-NR/PY, line 28.

14 Capital Losses Applied Against Capital Gains

If Schedule B, line 24 is a positive amount and any amount in Schedule D, Part 2, line 13 or Schedule D, Part 1, line 14, column A, B, C, D, E or F is a loss, complete the Long-Term Capital Losses Applied Against Short-Term Capital Gains Worksheet for Schedule B, Line 25 and Schedule D, Part 1, Line 15 and Part 2, line 14 on page 41. When completing the worksheet, be sure to enter all losses as a positive amount.

If Schedule B, line 21 is a loss and any amount in Schedule D, Part 2, line 13 or Schedule D, Part 1, line 14, columns A, B, C, D, E or F is a positive amount, complete the Short-Term Capital Losses Applied Against Long-Term Capital Gains Worksheet for Schedule B, Line 22 and Schedule D, Part 1, Line 15 and Part 2, Line 14 on page 41. When completing the worksheet, be sure to enter all losses as a positive amount.

15 Subtotal

If line 13 is greater than "0," subtract line 14 from line 13. If line 13 is less than "0," combine lines 13 and 14.

If any amount in Schedule D, Part 2, line 15 or Part 1, line 16 is a loss and Schedule B, line 24 is "0" or greater and Schedule B, line 31 is a positive amount, complete the Long-Term Capital Losses Applied Against Interest and Dividends Worksheet for Schedule B, Line 32 and Schedule D, Part 1, Line 17 and Schedule D, Part 2, line 16 on page 42.

If any amount in Schedule D, Part 2, line 15 or Part 1, line 16 is a loss, no other amount in Schedule D, Part 2, line 15 or Part 1, line 16 is a gain, and Schedule B, line 21 is "0" or less, omit Schedule D, Part 2, line 16, enter the amount from Schedule D, Part 2, line 15 in Schedule D, Part 2, line 17, omit Schedule D, Part 2, lines 18 through 21 and Part 3, lines 23 and 24 and enter the amount from Schedule D, Part 2, line 17 in Schedule D, Part 3, line 25, and enter "0" on Form 1-NR/PY, line 28.

If any amount in any column in Schedule D, Part 1, line 16 and Schedule D, Part 2, line 15 is "0," enter "0" in lines 16 through 23 for that column.

16 Long-Term Capital Losses Applied Against Interest and Dividends

If any amount in Schedule D, Part 1, line 16 or Schedule D, Part 2, line 15 is a loss and Schedule B, line 24 is "0" or greater and Schedule B, line 31 is a positive amount, complete the Long-Term Capital Losses Applied Against Interest and Dividends Worksheet for Schedule B, Line 32 and Schedule D, Part 1, Line 17 and Schedule D, Part 2, line 16 on page 42.

17 Subtotal

Combine line 15 and line 16. If the amount in Schedule D, Part 2, line 17 is "0," enter "0" in lines 18 through 21. If the amount in Schedule D, Part 2, line 17 is a loss, omit Schedule D, Part 2, lines 18 through 24.

18 Allowable Deductions From Your Trade or Business

Generally, taxpayers may not use excess 5.3% trade or business deductions to offset other income. However, where the taxpayer files a Massachusetts Schedule C or Schedule E, Massachusetts law allows such offsets if the following requirements are met: the excess 5.3% deductions must be adjusted gross income deductions allowed under MGL Ch. 62, sec. 2(d); and these excess deductions may only be used to offset other income which is effectively connected with the active conduct of a trade of business or any other income allowed under IRC, sec. 469(d)(1)(B) to offset losses from passive activities. Enclose Schedule C-2 with your return.

Enter in line 18 the amount from Schedule C-2, line 27.

19 Subtotal

Subtract line 18 from line 17 and enter the result in line 19. Not less than "0."

If the amount in Schedule D, line 19 is "0," omit Schedule D, lines 20 through 25 and enter "0" in Form 1-NR/PY, line 28.

20 Excess Exemptions

Enter in line 20 the amount from line 26 of the Excess Exemption Worksheet on page 23.

21 Taxable Long-Term Capital Gains

Subtract line 20 from line 19 and enter the result in Schedule D, line 21 and on Schedule D, page 4, Part 3 line 23G column 1. Not less than "0."

If the amount in Schedule D, line 21 is "0," omit Schedule D, lines 23 and 24 and enter "0" in Form 1-NR/PY, line 28.

Part 3. Tax on Long-Term Capital Gains**23 Taxable Long-Term Capital Gains**

Enter in line 23A, column 1 the amount from Schedule D, Part 1, page 1, line 22, column A. Multiply the amount by .05 (5%) and enter the result in column 2. Enter in line 23B, column 1 the amount from Schedule D, Part 1, page 1, line 22, column B. Multiply the amount by .04 (4%) and enter the result in column 2. Enter in line 23C, column 1 the amount from Schedule D, Part 1, page 2, line 22, column C. Multiply the amount by .03 (3%) and enter the result in column 2. Enter in line 23D, column 1 the amount from Schedule D, Part 1, page 2, line 22, column D. Multiply the amount by .02 (2%) and enter the result in column 2. Enter in line 23E, column 1 the amount from Schedule D, Part 1, page 3, line 22, column E. Multiply the amount by .01 (1%) and enter the result in column 2. Enter in line 23F, column 1 the amount from Schedule D, Part 1, page 3, line 22, column F. Enter in line 23G, column 1 the amount from Schedule D, Part 2, page 4, line 21. Multiply the amount by .053 (5.3%) and enter the result in column 2.

Note: Recent legislation provides that the personal income tax forms must provide an election to voluntarily pay tax at a rate of 5.85% on taxable income which would otherwise be taxed at a rate of 5.3%. The election to pay tax at the rate of 5.85% does not apply to items of income taxed at 12% (short-term capital gains and gains on collectibles). If choosing the optional 5.85% tax rate, multiply line 23G by .0585 and fill in the oval on Form 1-NR/PY, line 26.

24 Tax On Long-Term Capital Gains

Add lines 23A through 23G of column 2. Enter result here and on Form 1-NR/PY, line 28.

25 Available Losses for Carryover

Enter the total of Schedule D, Part 1, line 18, columns A through F and Schedule D, Part 2, line 17.

Schedule C

Note: If showing a loss, be sure to mark over the "X" in the box to the left.

Substituting U.S. Schedules C or C-EZ

If you are substituting U.S. Schedule C or Schedule C-EZ for Massachusetts Schedule C and there are no differences between the amounts reported on U.S. Schedule C or Schedule C-EZ and amounts that would be reported on Massachusetts Schedule C, write "No Massachusetts Differences" on the top of U.S. Schedule C or Schedule C-EZ.

Profit or Loss from Business or Profession

Massachusetts Schedule C is provided to report income and deductions from each business or profession operated as a sole proprietorship.

Registration Information

In the space provided, describe the business or professional activity that provided your principal source of income reported on line 1. If you owned more than one business, you must complete a separate Schedule C for each business. Give the general field or activity and the type of product or service.

Employer Identification Number

You need an employer identification number (EIN) only if you had a Keogh plan or were required to file an employment, excise, estate, trust, or alcohol, tobacco and firearms tax return. If you do not have an EIN, leave the line blank. Do not enter your SSN.

Small Business Energy Exemption

If you are claiming the small business energy exemption from the sales tax on purchases of taxable energy or heating fuel during 2002, you must have five or fewer employees. You must enter the number of your employees in the space provided.

Accounting Method

If you filed a return on the accrual basis last year, your return for this year must be on the same basis. If you filed a return on the cash basis last year and wish to change to the accrual basis this year, you must obtain permission from the Commissioner by filing Massachusetts Form 14 with your return. Form 14 is available from the Massachusetts Department of Revenue.

Material Participation

Indicate if you materially participated in the operation of this business during 2002. If you did not materially participate and have a loss from this business, see line 33 for further instructions.

1a Gross Receipts or Sales

In the boxes provided, enter gross receipts or sales from your business. Be sure to include on this line amounts you received in your trade or business as shown on Form 1099-MISC, Miscellaneous Income. If the nature of your business is such that you have gross or other income that interest (other than from Massachusetts banks) and dividend, exclude this income from lines 1 and 4 on Massachusetts Schedule C and include it in line 32 and in Schedule B, line 3. Examples of interest (other than from Massachusetts banks) and dividend income are interest received on loans, notes receivable or charge accounts that you accept in the ordinary course of business, and dividends on stocks received in payment for goods and services. Capital gains from the sale or exchange of assets used in your business are not reported on Schedule C. Use U.S. Form 4797 and report the amount in Form 1-NR/PY, Schedule B and/or Schedule D. You must also exclude from Schedule C any income and expenses that pertain to activities for yourself as distinguished from those performed for your customers. Such income must be reported by class of income in Schedules B and D. Personal expenses are not deductible. If you received Form W-2 and the "Statutory employee" box in item 13 of that form was checked, report your income and expenses related to that income on Schedule C. Enter your statutory employee income from box 1 of Form W-2 on line 1 of Schedule C and fill in the oval. Statutory employees include full-time life insurance agents, certain agent or commission drivers and traveling salespersons and certain homeworkers. If you had both self-employment income and statutory employee income, do not combine these amounts on a single Schedule C. In this case, you must file two Schedules C.

7 Bad Debts From Sales or Services

Include debts and partial debts from sales or services that were included in income and are definitely known to be worthless. If you later collect a debt that you deducted as a bad debt, include it as income in the year collected.

Note: Cash method taxpayers cannot take a bad debt deduction unless the amount was previously included in income.

11 Depreciation and Section 179 Deduction

The Section 179 expensing allowance is \$24,000 for property placed in service in tax years after 2000. Massachusetts now adopts the federal provision which requires a recovery period for the depreciation of nonresidential real property of 39 years for qualifying property placed in service on or after May 14, 1993.

Massachusetts depreciation has been decoupled from the federal “bonus” depreciation law. For Massachusetts purposes, for taxable years ending after September 10, 2001, depreciation is to be claimed on all assets, regardless of when they are placed in service, using the method used for federal income tax purposes prior to the enactment of sec. 168(k). For more information see TIR 02-11.

17 Pension and Profit-Sharing Plans

Enter your deduction for contributions to a pension, profit-sharing or annuity plan, or plans for the benefit of your employees. If the plan includes you as a self-employed person, do not include contributions made as an employer on your behalf.

22 Travel

Enter your expenses for lodging and transportation connected with overnight travel for business while away from your tax home. Generally, your tax home is your main place of business regardless of where you maintain your family home. You cannot deduct expenses paid or incurred in connection with employment away from home if that period of employment exceeds one year. Spouse's and other family members' travel expenses are generally disallowed as a business deduction.

Do not include expenses for meals and entertainment on this line. Instead, see the instructions for lines 23a and 23b.

23 Meals and Entertainment

Line 23a. Enter your total business meal and entertainment expenses. Include meals while traveling away from home for business. Instead of the actual cost of your meals while traveling away from home, you may use the standard meal allowance. Business meal expenses are deductible only if they are (a) directly related to or associated with the conduct of your trade or business, (b) not lavish or extravagant and (c) incurred while you or your employee is present at the meal. Club dues are not allowed as a business deduction.

Line 23b. Generally, you may deduct only 50% of your business meal and entertainment expenses, including meals incurred while traveling away from home on business. However, you may fully deduct meals and entertainment furnished or reimbursed to an employee if you properly treat the expense as wages subject to withholding. You may also fully deduct meals and entertainment provided to a nonemployee to the extent the expenses are includible in the gross income of that person and reported on Form 1099-MISC. Figure how much of the amount on line 23a is subject to the 50% limit. Then, enter 50% of that amount on line 23b. This amount should be subtracted from the amount in line 23a. Enter the result in line 23 of Massachusetts Schedule C.

30 Abandoned Building Renovation Deduction

Massachusetts allows businesses to deduct 10% of the costs incurred in renovating certain buildings located in an Economic Opportunity Area (EOA). The buildings must be designated as abandoned by the Economic Assistance Coordinating Council. The renovation deduction may be taken in addition to any other deduction for which the renovation costs may qualify.

For more information, contact the Massachusetts Office of Business Development, 10 Park Plaza, Suite 3720, Boston, MA 02116 or call (617) 973-8600.

In line 30 enter 10% of the costs of renovating a qualifying abandoned building.

33 If You Have a Loss

Fill in the oval in line 33a if all of your investment is at risk. Enter your loss from line 31 on Form 1-NR/PY, line 8 **unless** you answered “no” to the question on material participation on the front of Schedule C. If you answered “no” to this question, complete a pro forma copy of U.S. Form 8582 that reflects only income being reported on your Massachusetts return. Enter in Massachusetts Schedule C, line 31 your allowable loss calculated on Form 8582.

Fill in the oval in line 33b if only some of your investment is at risk. To determine the amount of your allowable loss, complete a pro forma copy of U.S. Form 6198 that reflects only income being reported on your Massachusetts return. Enter the amount calculated on U.S. Form 6198 in line 31 unless you answered “no” to the question on material participation on the front of Schedule C. In this case, your loss is further limited. Use the amounts calculated on your pro forma U.S. Form 6198 to complete a pro forma U.S. Form 8582. If your at-risk amount is “0” or less, enter “0” in line 31.

Schedule R/NR

Part 1. Income Adjustments

Column A

Enter the amount of income reported on your federal return as modified as if it were received by a full-year Massachusetts resident. Refer to each specific line instruction for Form 1-NR/PY to determine income that should be added to or subtracted from the federal total.

Column B

Enter the amount of income from column A that you received while a Massachusetts resident.

Column C

Enter the amount of income from column A from both Massachusetts and non-Massachusetts sources that you received while a nonresident.

Column D

Enter the amount of income from column C from Massachusetts sources that you received while a nonresident.

See page 10 of the instructions for a definition of Massachusetts source income.

Refer to each specific line instruction for Form 1-NR/PY to determine the income from Massachusetts sources received during your nonresident period. Also see Form 1-NR/PY, line 13 instruction for those nonresidents eligible to apportion income.

If you received income from a business/profession reported on a Schedule C, while a Massachusetts resident and from Massachusetts sources while a nonresident, you must complete a separate Massachusetts Schedule C for each period.

Column E

Add column B and column D. This is your total income received while a Massachusetts resident and received from Massachusetts sources while a nonresident. Enter the amount from column E in each applicable line on Form 1-NR/PY (see separate instruction for Schedule D). Subtract the total of column D from column C and enter the result in line 14e of Form 1-NR/PY. This is the additional income that you received from non-Massachusetts sources that would have been reported by you if you had been a Massachusetts resident.

Add Form 1-NR/PY lines 5 through 12 and complete Form 1-NR/PY line 14 before completing the rest of this worksheet.

Schedule D

Enter in column A the total of Schedule D, Part 1, line 8 and Part 2, line 7. Enter in column B the amount of income from column A that you received while a Massachusetts resident. Enter in column C the amount of income from column A from both Massachusetts and non-Massachusetts sources that you received while a nonresident. Enter the amount of income from column C from Massachusetts sources that you received while

nonresident. Subtract column D from column C and enter the result (plus any other applicable adjustments) in Schedule D, line 9. Complete Schedule D as otherwise instructed.

Part 2. Deduction and Exemption Adjustments

Note: Schedule Y, line 5 is adjusted both in Sections A and B. See Schedule R/NR to determine which amounts are adjusted in Section A and Section B.

Section A.

Lines 15a and 15b

The amounts reported in column A must be related to income reported in Part 1, column B. The amounts reported in column B must be related to income reported in Part 1, column D. The column C total cannot exceed \$2,000.

Schedule Y, line 1

The amounts reported in column A must be related to income reported in Part 1, column B. The amounts reported in column B must be related to income reported in Part 1, column D. Complete separate worksheets for columns A and B.

Schedule Y, line 2

The amounts reported in column A must be related to income reported in Part 1, column B or on a previous Massachusetts return. The amounts reported in column B must be related to income reported in Part 1, column D or on a previous Massachusetts return.

Schedule Y, line 4

The amounts reported in column A must be related to income reported in Part 1, line 5, column B. The amounts reported in column B must be related to income reported in Part 1, line 5, column D.

Schedule Y, line 5

The amounts reported in column A must be related to income reported in Part 1, column B. The amounts reported in column B must be related to income reported in Part 1, column D.

Schedule Y, line 6

The amounts reported in column A must be related to income reported in Part 1, line 6, column B. The amounts reported in column B must be related to income reported in Part 1, line 6, column D.

Column C

Add column A and column B and enter the total in each applicable line of Form 1-NR/PY or Schedule Y.

Section B

Note: You may claim only a deduction for either line 16 or line 17. Refer to the Form 1-NR/PY instructions to determine which deduction is better for you.

Line 16

Complete the worksheet in Form 1-NR/PY instructions through number 3 and enter that amount in column A. In column B enter the amount from column A that is related to your Massachusetts resident period. Subtract column B from column A and enter the result in column C. Multiply the amount from column C by Form 1-NR/PY, line 14g and enter the result in column D. Add columns B and D and enter the result in column E and Form 1-NR/PY, line 16.

Line 17

If you have a dependent member(s) of household under age 12, or dependents age 65 or over as of December 31, 2002, or disabled dependents and you are not claiming an amount in line 16, enter \$3,600, or \$7,200 for two or more such dependents, in column A. Multiply the column A amount by Form 1-NR/PY, line 2 and enter the result in column B. Subtract the amount in column B from column A and enter the result in column C. Multiply the column C amount by Form 1-NR/PY, line 14g and enter the result in column D. Add column B and column D and enter the result in column E and in Form 1-NR/PY, line 17.

Line 22

In column A enter the amount from Form 1-NR/PY, line 4f. Multiply the column A amount by Form 1-NR/PY, line 2 and enter the result in column B. Subtract the amount in column B from column A and enter the result in column C. Multiply the column C amount by Form 1-NR/PY, line 14g and enter the result in column D. Add column B and column D and enter the result in column E and in Form 1-NR/PY, line 22.

Line 42

Multiply the earned income credit amount from your U.S. Form 1040, line 64; Form 1040A, line 41; Form 1040EZ, line 8; or U.S. Telefile Tax Record, item L by .15 (15%). Enter the result in column A. If you choose to have the IRS compute your federal earned income credit, wait until the IRS notifies you of your federal earned income credit amount before entering an amount in column A. If you have not received your earned income credit amount as computed by the IRS by April 16, 2002, you may file Massachusetts Form M-4868, Application for Automatic Six-Month Extension of Time to File Massachusetts Income Tax Return. Multiply the amount in column A by Form 1-NR/PY, line 2 and enter the result in column B. Subtract the amount in column B from column A and enter the result in column C. Multiply the amount in column C by Form 1-NR/PY, line 14g and enter the result in column D. Add column B and column D and enter the result in column E and in Form 1-NR/PY, line 42.

Schedule Y, line 3

In column A enter the total alimony paid from U.S. Form 1040, line 33a. In column B enter the amount from column A paid while you were a Massachusetts resident. Subtract the column

B amount from the column A amount and enter the result in column C. Multiply the column C amount by Form 1-NR/PY, line 14g and enter the result in column D. Add column B and column D and enter the total in column E and in Form 1-NR/PY, Schedule Y, line 3.

Schedule Y, line 5

In column A enter the total of U.S. Form 1040, lines 25, 27 and any amount included in line 34 for clean fuel vehicle deduction. Multiply the column A amount by Form 1-NR/PY, line 2. Subtract the column B amount from the column A amount and enter the result in column C. Multiply the column C amount by Form 1-NR/PY, line 14g and enter the result in column D. Add column B and column D and enter the total in column E and in Form 1-NR/PY, Schedule Y, line 5.

Schedule Y, line 7

Complete the worksheet in Form 1-NR/PY instructions through item 6 and enter that amount in column A. Multiply the amount in column A by Form 1-NR/PY, line 2 and enter the result in column B. Subtract the amount in column B from column A and enter the result in column C. Multiply the column C amount by Form 1-NR/PY, line 14g and enter the result in column D. Add column B and column D and enter the result in column E and in Schedule Y, line 7.

Schedule Y, Line 8

In column A enter the amount of interest paid on an undergraduate student loan(s) (see Schedule Y, line 8 instructions). Multiply the amount in column A by Form 1-NR/PY, line 2 and enter the result in column B. Subtract the amount in column B from column A and enter the result in column C. Multiply the column C amount by Form 1-NR/PY, line 14g and enter the result in column D. Add column B and column D and enter the result in column E and in Schedule Y, line 8.

Completing Form 1-NR/PY

After entering the amounts from this worksheet in the applicable lines of Form 1-NR/PY, complete Form 1-NR/PY, lines 28 through 49.

Note: In Form 1-NR/PY, line 40, only enter amounts listed as Massachusetts withholding.

Schedule NTS-L-NR/PY

If completing Schedule NTS-L-NR/PY, enter the amount from Form 1-NR/PY line 14e in line 7 of Schedule NTS-L-NR/PY.

Schedule F

You may only claim a Credit for Income Taxes Paid to Another State or Jurisdictions on income received while a Massachusetts resident. Complete Schedule F based on income received during your Massachusetts resident period only.

2002 Massachusetts Income Tax Table at the 5.3% Rate

Use this table to calculate tax for taxable 5.3% income (line 25) of not more than \$24,000.

Line 26 Instructions: To find your **Tax on 5.3% Income** (line 26), read down the tax table income column to the line containing the amount you entered in line 25. Then read across to the **TAX** column and enter this amount in line 26. If your taxable 5.3% income in line 25 is greater than \$24,000, multiply the amount by .053. Enter the result in line 26.

Note: If choosing the optional 5.85% tax rate, multiply line 25 and the amount in Schedule D, line 23g by .0585.

INCOME			INCOME			INCOME			INCOME			INCOME			INCOME		
More than	But not more than	TAX	More than	But not more than	TAX	More than	But not more than	TAX	More than	But not more than	TAX	More than	But not more than	TAX	More than	But not more than	TAX
\$ 1 – \$ 50	\$ 1	4	\$ 4,000 – \$ 4,050	\$ 213		\$ 8,000 – \$ 8,050	\$ 425		\$12,000 – \$12,050	\$ 637		\$16,000 – \$16,050	\$ 849		\$20,000 – \$20,050	\$1,061	
50 – 100	100	4	4,050 – 4,100	216		8,050 – 8,100	428		12,050 – 12,100	640		16,050 – 16,100	852		20,050 – 20,100	1,064	
100 – 150	150	7	4,100 – 4,150	219		8,100 – 8,150	431		12,100 – 12,150	643		16,100 – 16,150	855		20,100 – 20,150	1,067	
150 – 200	200	9	4,150 – 4,200	221		8,150 – 8,200	433		12,150 – 12,200	645		16,150 – 16,200	857		20,150 – 20,200	1,069	
200 – 250	250	12	4,200 – 4,250	224		8,200 – 8,250	436		12,200 – 12,250	648		16,200 – 16,250	860		20,200 – 20,250	1,072	
250 – 300	300	15	4,250 – 4,300	227		8,250 – 8,300	439		12,250 – 12,300	651		16,250 – 16,300	863		20,250 – 20,300	1,075	
300 – 350	350	17	4,300 – 4,350	229		8,300 – 8,350	441		12,300 – 12,350	653		16,300 – 16,350	865		20,300 – 20,350	1,077	
350 – 400	400	20	4,350 – 4,400	232		8,350 – 8,400	444		12,350 – 12,400	656		16,350 – 16,400	868		20,350 – 20,400	1,080	
400 – 450	450	23	4,400 – 4,450	235		8,400 – 8,450	447		12,400 – 12,450	659		16,400 – 16,450	871		20,400 – 20,450	1,083	
450 – 500	500	25	4,450 – 4,500	237		8,450 – 8,500	449		12,450 – 12,500	661		16,450 – 16,500	873		20,450 – 20,500	1,085	
500 – 550	550	28	4,500 – 4,550	240		8,500 – 8,550	452		12,500 – 12,550	664		16,500 – 16,550	876		20,500 – 20,550	1,088	
550 – 600	600	30	4,550 – 4,600	242		8,550 – 8,600	454		12,550 – 12,600	666		16,550 – 16,600	878		20,550 – 20,600	1,090	
600 – 650	650	33	4,600 – 4,650	245		8,600 – 8,650	457		12,600 – 12,650	669		16,600 – 16,650	881		20,600 – 20,650	1,093	
650 – 700	700	36	4,650 – 4,700	248		8,650 – 8,700	460		12,650 – 12,700	672		16,650 – 16,700	884		20,650 – 20,700	1,096	
700 – 750	750	38	4,700 – 4,750	250		8,700 – 8,750	462		12,700 – 12,750	674		16,700 – 16,750	886		20,700 – 20,750	1,098	
750 – 800	800	41	4,750 – 4,800	253		8,750 – 8,800	465		12,750 – 12,800	677		16,750 – 16,800	889		20,750 – 20,800	1,101	
800 – 850	850	44	4,800 – 4,850	256		8,800 – 8,850	468		12,800 – 12,850	680		16,800 – 16,850	892		20,800 – 20,850	1,104	
850 – 900	900	46	4,850 – 4,900	258		8,850 – 8,900	470		12,850 – 12,900	682		16,850 – 16,900	894		20,850 – 20,900	1,106	
900 – 950	950	49	4,900 – 4,950	261		8,900 – 8,950	473		12,900 – 12,950	685		16,900 – 16,950	897		20,900 – 20,950	1,109	
950 – 1,000	1,000	52	4,950 – 5,000	264		8,950 – 9,000	476		12,950 – 13,000	688		16,950 – 17,000	900		20,950 – 21,000	1,112	
1,000 – 1,050	1,050	54	5,000 – 5,050	266		9,000 – 9,050	478		13,000 – 13,050	690		17,000 – 17,050	902		21,000 – 21,050	1,114	
1,050 – 1,100	1,100	57	5,050 – 5,100	269		9,050 – 9,100	481		13,050 – 13,100	693		17,050 – 17,100	905		21,050 – 21,100	1,117	
1,100 – 1,150	1,150	60	5,100 – 5,150	272		9,100 – 9,150	484		13,100 – 13,150	696		17,100 – 17,150	908		21,100 – 21,150	1,120	
1,150 – 1,200	1,200	62	5,150 – 5,200	274		9,150 – 9,200	486		13,150 – 13,200	698		17,150 – 17,200	910		21,150 – 21,200	1,122	
1,200 – 1,250	1,250	65	5,200 – 5,250	277		9,200 – 9,250	489		13,200 – 13,250	701		17,200 – 17,250	913		21,200 – 21,250	1,125	
1,250 – 1,300	1,300	68	5,250 – 5,300	280		9,250 – 9,300	492		13,250 – 13,300	704		17,250 – 17,300	916		21,250 – 21,300	1,128	
1,300 – 1,350	1,350	70	5,300 – 5,350	282		9,300 – 9,350	494		13,300 – 13,350	706		17,300 – 17,350	918		21,300 – 21,350	1,130	
1,350 – 1,400	1,400	73	5,350 – 5,400	285		9,350 – 9,400	497		13,350 – 13,400	709		17,350 – 17,400	921		21,350 – 21,400	1,133	
1,400 – 1,450	1,450	76	5,400 – 5,450	288		9,400 – 9,450	500		13,400 – 13,450	712		17,400 – 17,450	924		21,400 – 21,450	1,136	
1,450 – 1,500	1,500	78	5,450 – 5,500	290		9,450 – 9,500	502		13,450 – 13,500	714		17,450 – 17,500	926		21,450 – 21,500	1,138	
1,500 – 1,550	1,550	81	5,500 – 5,550	293		9,500 – 9,550	505		13,500 – 13,550	717		17,500 – 17,550	929		21,500 – 21,550	1,141	
1,550 – 1,600	1,600	83	5,550 – 5,600	295		9,550 – 9,600	507		13,550 – 13,600	719		17,550 – 17,600	931		21,550 – 21,600	1,143	
1,600 – 1,650	1,650	86	5,600 – 5,650	298		9,600 – 9,650	510		13,600 – 13,650	722		17,600 – 17,650	934		21,600 – 21,650	1,146	
1,650 – 1,700	1,700	89	5,650 – 5,700	301		9,650 – 9,700	513		13,650 – 13,700	725		17,650 – 17,700	937		21,650 – 21,700	1,149	
1,700 – 1,750	1,750	91	5,700 – 5,750	303		9,700 – 9,750	515		13,700 – 13,750	727		17,700 – 17,750	939		21,700 – 21,750	1,151	
1,750 – 1,800	1,800	94	5,750 – 5,800	306		9,750 – 9,800	518		13,750 – 13,800	730		17,750 – 17,800	942		21,750 – 21,800	1,154	
1,800 – 1,850	1,850	97	5,800 – 5,850	309		9,800 – 9,850	521		13,800 – 13,850	733		17,800 – 17,850	945		21,800 – 21,850	1,157	
1,850 – 1,900	1,900	99	5,850 – 5,900	311		9,850 – 9,900	523		13,850 – 13,900	735		17,850 – 17,900	947		21,850 – 21,900	1,159	
1,900 – 1,950	1,950	102	5,900 – 5,950	314		9,900 – 9,950	526		13,900 – 13,950	738		17,900 – 17,950	950		21,900 – 21,950	1,162	
1,950 – 2,000	2,000	105	5,950 – 6,000	317		9,950 – 10,000	529		13,950 – 14,000	741		17,950 – 18,000	953		21,950 – 22,000	1,165	
2,000 – 2,050	2,050	107	6,000 – 6,050	319		10,000 – 10,050	531		14,000 – 14,050	743		18,000 – 18,050	955		22,000 – 22,050	1,167	
2,050 – 2,100	2,100	110	6,050 – 6,100	322		10,050 – 10,100	534		14,050 – 14,100	746		18,050 – 18,100	958		22,050 – 22,100	1,170	
2,100 – 2,150	2,150	113	6,100 – 6,150	325		10,100 – 10,150	537		14,100 – 14,150	749		18,100 – 18,150	961		22,100 – 22,150	1,173	
2,150 – 2,200	2,200	115	6,150 – 6,200	327		10,150 – 10,200	539		14,150 – 14,200	751		18,150 – 18,200	963		22,150 – 22,200	1,175	
2,200 – 2,250	2,250	118	6,200 – 6,250	330		10,200 – 10,250	542		14,200 – 14,250	754		18,200 – 18,250	966		22,200 – 22,250	1,178	
2,250 – 2,300	2,300	121	6,250 – 6,300	333		10,250 – 10,300	545		14,250 – 14,300	757		18,250 – 18,300	969		22,250 – 22,300	1,181	
2,300 – 2,350	2,350	123	6,300 – 6,350	335		10,300 – 10,350	547		14,300 – 14,350	759		18,300 – 18,350	971		22,300 – 22,350	1,183	
2,350 – 2,400	2,400	126	6,350 – 6,400	338		10,350 – 10,400	550		14,350 – 14,400	762		18,350 – 18,400	974		22,350 – 22,400	1,186	
2,400 – 2,450	2,450	129	6,400 – 6,450	341		10,400 – 10,450	553		14,400 – 14,450	765		18,400 – 18,450	977		22,400 – 22,450	1,189	
2,450 – 2,500	2,500	131	6,450 – 6,500	343		10,450 – 10,500	555		14,450 – 14,500	767		18,450 – 18,500	979		22,450 – 22,500	1,191	
2,500 – 2,550	2,550	134	6,500 – 6,550	346		10,500 – 10,550	558		14,500 – 14,550	770		18,500 – 18,550	982		22,500 – 22,550	1,194	
2,550 – 2,600	2,600	136	6,550 – 6,600	348		10,550 – 10,600	560		14,550 – 14,600	772		18,550 – 18,600	984		22,550 – 22,600	1,196	
2,600 – 2,650	2,650	139	6,600 – 6,650	351		10,600 – 10,650	563		14,600 – 14,650	775		18,600 – 18,650	987		22,600 – 22,650	1,199	
2,650 – 2,700	2,700	14242															

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What kind of help is available

The instructions in the Department of Revenue's tax forms should provide answers to most taxpayer questions. If you have questions about completing your Massachusetts tax form, you can call us at (617) 887-MDOR or toll-free in Massachusetts at 1-800-392-6089 Monday through Friday, between 8:45 a.m. and 5:00 p.m. DOR's website at www.mass.gov/dor is also a valuable resource for tax information 24 hours a day. Thousands of taxpayers use DOR's website to e-mail and receive prompt answers to their general tax inquiries. Interactive applications that allow taxpayers to check the status of their refunds and review their quarterly estimated tax payment histories are available through our website or by calling our main information lines listed above. TaxTalk, the DOR's automated system of recorded tax help, is available during non-business hours by calling our main information lines. See page 4 of this booklet for TaxTalk topics; these topics are also available online.

Where to get forms and publications



Most Massachusetts tax forms and publications are available via the DOR website. The address for the Department's website is www.mass.gov/dor.



To obtain Massachusetts forms and publications by phone, call the Department's main information lines at (617) 887-MDOR or toll-free in Massachusetts at 1-800-392-6089.

Please note that many forms and publications are available 24 hours a day by calling the Department's automated forms request system at the numbers listed above.



During the income tax filing season, you can pick up Massachusetts personal income tax forms at your local library or at IRS district offices across the state.



Certain forms and publications can be obtained through DOR's Fax on Demand system. For a complete Fax on Demand menu, please call (617) 887-1900 using the handset and the keypad on your fax machine.

For help in one of the following specific areas

- Certificates of Good Standing (617) 887-6550
- Installment Sales (617) 887-6950
- Teletype (TTY) (617) 887-6140
- Small Business Workshop (617) 887-6400
- Vision-impaired taxpayers can contact DOR by calling one of the phone numbers listed above to receive assistance.
- Upon request, this publication is available in an alternative format. Please send your request to: Office of Affirmative Action, PO Box 55488, Boston, MA 02205-5488 or call (617) 626-3410.

To report allegations of suspected misconduct or impropriety involving Department of Revenue employees, call the Inspectional Services Division's Integrity Hot Line at 1-800-568-0085 or write to PO Box 55480, Boston, MA 02205-5480.

Massachusetts

Department of

Revenue

PO Box 7011

Boston, MA 02204

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Dear Taxpayer,

Last year, more than one million taxpayers electronically filed their state income tax returns in the Commonwealth and received their refunds, on average, in four days. Unfortunately, many of those who filed paper returns did not receive their refund checks for three or more months. DOR is doing everything possible to streamline processing this year. Whether you use our popular telephone option, Telefile, described on Page 3 of this booklet, or file using a DOR-approved commercial software package or tax preparer, the best way to guarantee a speedy refund is to e-file your return. If you need to make a payment, you can e-file early and have your payment electronically debited from your account as late as April 15th.

Please note that many DOR-approved tax preparation software packages this year will translate the line item entries on your return into a 2-Dimensional (2-D) bar code so that we can more quickly process your return. For a list of authorized software packages with 2-D bar coding, visit our website at www.mass.gov/dor.

Recent tax law changes have affected the tax rate, personal exemption amounts, treatment of capital gains, employment-related child and dependent care deduction, and Senior Circuit Breaker Credit. In addition, the Charitable Contributions deduction has been suspended. Please be sure to refer to the instructions in this booklet for guidance. For your convenience, DOR has reduced the amount of supporting documentation that needs to be enclosed with your return. Finally, new this year, you may report any use tax payments owed on out-of-state purchases directly on your income tax form rather than having to file a separate use tax return.

The staff at the Department of Revenue is committed to making this tax filing season as efficient as possible. For information or assistance, visit our website or call us at (617) 887-MDOR or, toll-free in Massachusetts, (800) 392-6089.

Sincerely,

A handwritten signature in black ink that reads "Alan LeBovidge". The signature is written in a cursive, flowing style.

Alan LeBovidge
Commissioner